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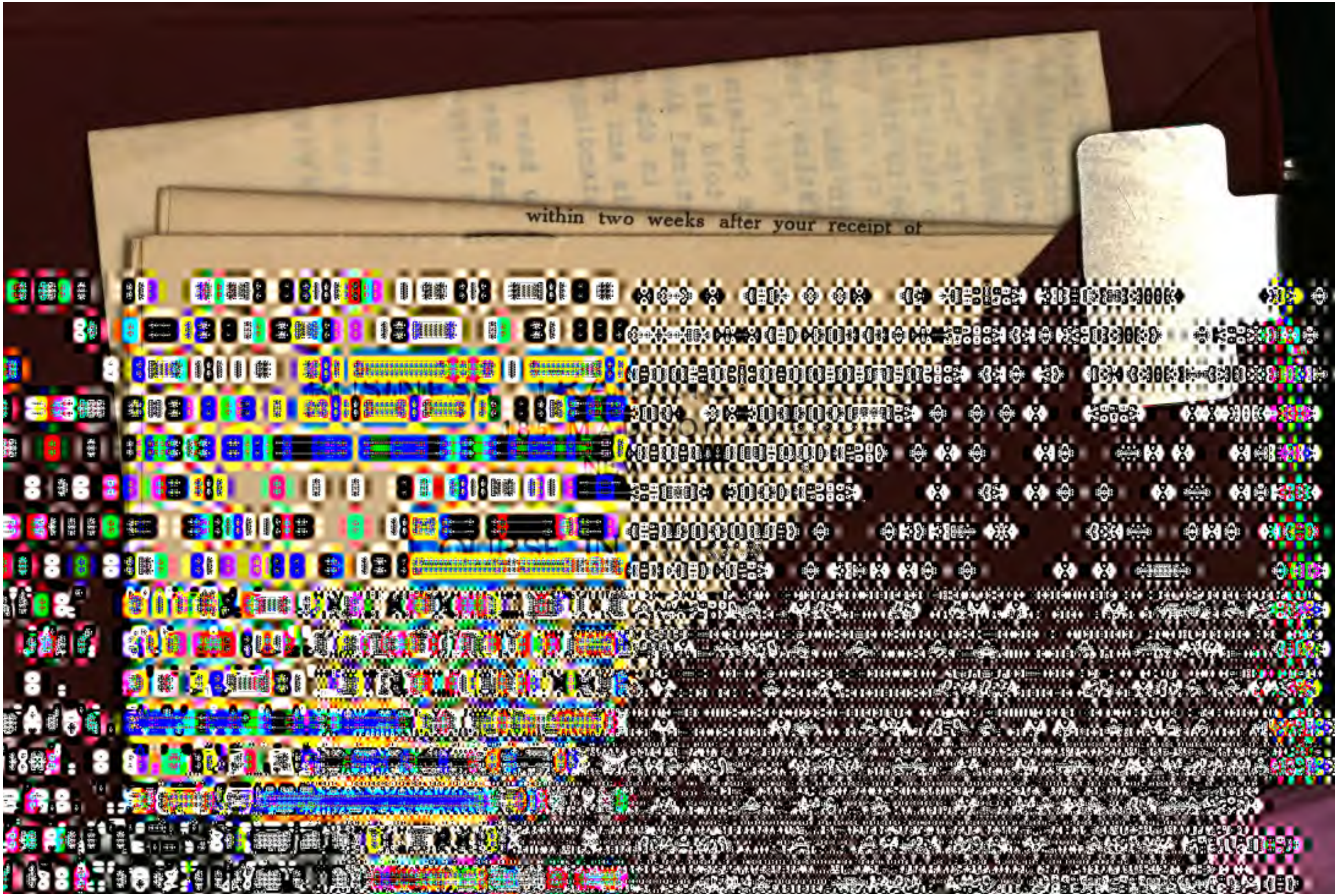

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ECONOMICS
OF WORLD TRADE

By
O. P. AUSTIN
Statistician, Foreign Trade Department
National City Bank of New York

Being the First
Unit of a Course
in Foreign Trade

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Course in Foreign Trade

Edward Ewing Pratt - - - *Director*
Edward Leonard Bächer - *Secretary*

The text of the course is issued in twelve units as follows:

	TITLE	AUTHOR
I.	Economics of World Trade	O. P. Austin
II.	The World's Markets	Edward Neville Vose
III.	Export Policies	P. B. Kennedy E. C. Porter
IV.	Export Houses	John F. Fowler C. A. Richards Henry A. Talbot
V.	Direct Exporting	Walter F. Wyman
VI.	The Export Salesman	Paul R. Mahony
VII.	Shipping	Emory R. Johnson Grover G. Huebner
VIII.	Financing	E. A. DeLima J. Santilhano
IX.	Export Technique	Edward L. Bächer
X.	Foreign and Home Law	Phanor J. Eder
XI.	Importing	Carl W. Stern
XII.	Factors in Trade-Building	Chauncey D. Snow

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INTRODUCTION

TO

COURSE IN FOREIGN TRADE

By

EDWARD EWING PRATT

Chief, Bureau of Foreign and Domestic Commerce

United States Department of Commerce

I

Plan and Scope of Course

IT is no easy task to find men qualified to write a foreign trade course. Experts with a practical knowledge of the subject and also the ability to impart that knowledge are scarce. I think that we have been singularly fortunate in securing the cooperation of men who are not only authorities in the subject covered but are also writers skilled in making their work readable and practical.

A Practical Course in Foreign Trade

The course has been written with emphasis on three characteristics—concreteness, conciseness and Americanism. It aims to be practical, to avoid theory and speculation. It is designed to treat each of the subjects in as few and as forceful words as possible. It is American, written from an American point of view, for Americans.

Many steps go to make up an export transaction. Where the export business is properly planned, they follow in a natural sequence. The basic plan of this course follows in a general way the same sequence. It comprises twelve instalments or study-units. At present we shall consider only the subject matter of the course, and later the form of the study-units. Four major divisions suggest themselves, as indicated in the diagram below.

OUTLINE OF STUDY-UNITS

DETERMINING MARKETS AND POLICIES		
I Economics of World Trade	II The World's Markets	III Export Policies

SELLING METHODS		
IV Export Houses	V Direct Exporting	VI The Export Salesman

HANDLING EXPORT ORDERS		
VII Shipping	VIII Financing	IX Export Technique

FACTORS INFLUENCING FOREIGN TRADE		
X Foreign and Home Law	XI Importing	XII Factors in Trade Building

In planning a foreign trade campaign it is fundamental to determine, *first,* markets and policies. This is foundation work. With it completed the merchant is ready to sell. He must consider, *second,* selling methods. Having his customer's order, he turns, *third,* to the problem of handling that order to its completion. With the structure of foreign trade thoroughly understood, the exporter—if he is progressive—insists on knowing, *fourth,* the factors that may affect foreign trade as a whole.

Determining Markets and Policies

Unit I deals with the economics of world trade. It outlines the commercial principles that business pursues, often unconsciously. The mighty forces of all international trade are reviewed. But it is more than a treatise on theories. The emphasis is placed on American trade—how it has developed, whither it is tending, what the future will be when the present world crisis is passed. It is interesting and fundamental in a practical way.

Unit II proceeds to the markets. It is not a commercial geography; it is a careful study of our foreign customers. The markets of the world, their trade centers, their possibilities as consumers of American goods are discussed from the point of view of the American exporter. This Unit aims to give the student that "world view" which is essential to a proper understanding of foreign trade.

From the broader subjects of economics and markets Unit III proceeds to the more specific problem of policies. It indicates the choice of methods confronting the domestic manufacturer entering the foreign field. Treating the subject concretely and citing actual examples, this Unit offers an excellent basis for deciding specific problems of individual exporters.

A good architect looks to the foundations of his building first. It is no safer to neglect the basis of an export business than it is to overlook the base blocks of a skyscraper.

Selling Methods

The second group of Units, IV, V and VI, leads into the actual selling of products. Unit IV explains the functions, the mechanism, the policies of the export houses. The contributions of the export merchant, the commission house, the manufacturer's agent and the export forwarder to trade are explained in detail. The manufacturer who wishes to export, but not direct, learns in this Unit the facilities that are offered him for reaching his customers indirectly.

Many manufacturers, however, choose to deal direct with their overseas customers. Unit V presents a thorough analysis of the situation confronting such exporters. In studying these problems we are led into the details of exporting—the questions of departmental and office organization, the thousand little things that assume an unexpected importance in exporting. This Unit appeals to the man who is to handle an export business from his office in the United States.

Unit VI touches more closely the man who is starting for foreign fields. How should he plan his trips, what qualifications should he have, with what difficulties will he meet, how should he handle the foreign customer, how should his firm treat him? These are samples of the practical questions treated in Unit VI.

The choice of methods for obtaining orders is of prime importance to the exporter. Having chosen his selling method and having obtained orders, his next task is to execute the orders.

Handling Export Orders

Unit VII follows the order from factory to customer. All the questions of shipping by rail and steamer, and of insuring the shipment, are discussed with authority. Ocean rates, routes, ship charters, methods of shipping goods—the hundreds of subjects related to ocean shipping are discussed. The broader problems of transportation policies affecting our trade are clearly presented.

Unit VIII covers the financing of the transaction—the means of getting payment, the methods of international exchange, the questions of credits, the fundamental principles on which export financing is based, and the efforts now being made through foreign investments and branch banks to build up our overseas trade.

Unit IX is of peculiar interest. In it will be included copies of correspondence covering actual export transactions, from the simplest to the most complex, taken from the files of manufacturers and exporters. The experiences of these men in manufacturing, in packing, in the many phases of handling orders, will be collected into this unit.

With the completion of the first nine units of the course the student will have acquired a knowledge of the constituent parts of export trade and is ready to undertake a study of outside factors that influence it.

Factors Influencing Foreign Trade

Unit X, on law, discusses legal questions of vital importance to both export manager and salesman. By a comparison of American business laws, covering ordinary commercial relationships and transactions, with foreign laws of similar nature it brings out the points our exporters must observe in overseas trade. The broader questions of commercial treaties, customs and other phases of international law are discussed.

With the responsibility upon us of pushing our goods in the markets of the world, our first task is to understand exporting. But to further our world trade we must buy as well as sell. In Unit XI the principles, the mechanism and the problems of importing—the second half of our foreign trade—are considered. Foreign buying, customs regulations, import houses, are described in detail.

Unit XII closes the course with a consideration of the various agencies promoting foreign trade, foremost the Bureau of Foreign and Domestic Commerce, then other public, semi-public and some private agencies—suggesting many sources of information to the man entering export work. There is also a discussion of the broader questions of governmental policies affecting tariff, merchant marine and similar trade factors.

What the Study-Unit Is

You will receive this course in 12 study-units, the first of which is now in your hands. An additional study-unit will be mailed to you every two weeks during the six months period of the course.

Each study-unit consists of the following:

1. A *letter* from the director, which is

slipped into the front pocket of the text-book. You should read this first of all. It is introductory to the text, and indicates in brief the scope, plan and purpose of the Unit.

2. A *text-book* which ordinarily contains about 100 to 150 pages. This book includes all the required reading. Some suggestions for additional reading on related topics may be given, and such extra reading will in all cases be valuable and helpful. If you can find time and opportunity for this extra reading, do it by all means. But this outside material must not be allowed to divert your attention from the main purpose of following the course as it is presented.
3. A stamped *post card*. This is enclosed in the front pocket of the text-book, and is called "Report on Reading." As soon as you have completed your first reading of the text, you should fill out this card and mail it.
4. A series of *quiz questions*. These are printed in the back of each text-book, and are designed to test your understanding of the text. When you have completed your second reading of the

text-book, you should go over these questions and satisfy yourself that you can answer all of them.

5. A *problem*. This is printed separately and enclosed in the back pocket of each book. With the problem is included blank paper on which to write your solution and an addressed envelope in which to mail it. Shortly after its receipt, we will return your solution with our comments, and will give you a rating which will be entered on our records. Solving the problem constitutes the best evidence the student can give that he understands the subject matter and its application to the practical problems of foreign trade.

Your Program of Work

A study-unit including these five elements will be mailed to you every two weeks from now to the end of the course. Your own work during each two-week period will fall into three distinct stages, as follows:

1. *Read the introductory letter and the text-book from beginning to end.* Do not try to study carefully during this reading. Your first object is to get a general view of the subject. Read for the pleasure of it. Let the book

grip you with the sheer interest of it. The moment you have completed this first reading, take the post card from the front pocket, fill it out, and mail it immediately. You should return this post card within three or four days after receiving the study-unit.

2. *Go back to the text-book and study it carefully.*

   Concentrate. Make sure that you get every important idea. Don't go too rapidly; make sure that you understand and will remember.

   At the end of this second reading, test yourself by going over the quiz questions. If you can't answer them, go to the text and study the related chapters.

3. *Now you are ready to solve the problem.*

   First study the problem carefully and make sure that you understand what it is asking.

   Then answer it fully but concisely. Don't slur over anything that you cannot answer, don't dodge and don't bluff. The object is to test your mastery of the subject. The answers should be definite, straight-from-the-shoulder. We are not looking for a perfect solution of the problem. We are looking for a solution on your part which shows your knowledge of the subject and your ability to apply this knowledge practically to the problems of importing and exporting.

Keep to This Schedule

This, then, is your program of work for every two weeks. There are 12 working days in the two weeks. Some time during the first four days you ought to complete the first stage—reading the introductory letter and text, and sending the post card report of reading. During the next four days you ought to complete the second stage—that is, reread the text and test yourself with the quiz questions. During the last four days you should work out the problem and mail your solution.

Systematizing your study is highly important. If the work is neglected for a day or two, it piles up to a discouraging degree and becomes an irksome burden rather than a source of pleasure.

As you take up the study of this course there are two thoughts that I would impress upon you.

The first is that in foreign trade, as in any other activity, ambition is the first essential to success. Ambition is more than mere desire—it is desire with momentum back of it. It is the mark of the ambitious man that he welcomes the opportunity to devote part of his leisure time to getting ahead. It is not arm-chair work—becoming efficient in foreign trade. In many cases it will mean the acquisition of foreign languages. It will mean *mastering* —not merely looking over—the material included in this course.

Special Qualities Required in Export Trade

The second thought is this: Training in foreign trade is as truly capital as gold coin stored in a vault. Much capital is intangible. The man giving up a position to work his way through college, the doctor foregoing immediate practice to serve as an interne—these men are storing up capital, but capital of the intangible kind. You, who are undertaking the work of this course, are beginning the storing up of intangible capital. The men who are in demand today are the men with training, with information, with capacity and equipment for specific work. The man wanted most is the man with the largest reserve of personal capital.

In the field of foreign trade, there is great demand for this type of man. The work calls for specialized training, it requires initiative, foresight, resourcefulness, endurance—it lays a premium on the characteristics which the ambitious man possesses. You may have been attracted to foreign trade by a curiosity to see new peoples and visit strange lands, traveling the highways and byways of the world. In the end I believe you will find a deeper value in it than this. You will realize that rubbing shoulders with the traders of other nations has given you a fuller sense of power, greater self confidence. It has taken you away from the narrower confines of domestic trade and has broadened your outlook to include all six continents. You welcome the challenge to prove that the American business men—of whom you are one—are the equals of their competitors in all markets.

II

Our New Place in World Commerce

WE are facing today the beginning of a new era in the economic development of the United States.

There was a time when the nation consisted of only a few colonies scattered along the Atlantic seaboard. The inhabitants themselves supplied the major part of their needs; they brought in from Europe what they could not make for themselves, and their exports were small indeed.

The Development of Industrialism

During the early part of the last century the United States became an agricultural and pastural nation. We began to produce raw materials and food supplies, sufficient not only for our own needs, but for those of a large part of the world. We became exporters of raw materials and food supplies. During the same period we began first to establish small industries for supplying our more complex needs. Gradually industry developed and during the last quarter of the nineteenth century and the early years of the present century the United States has become a great industrial nation.

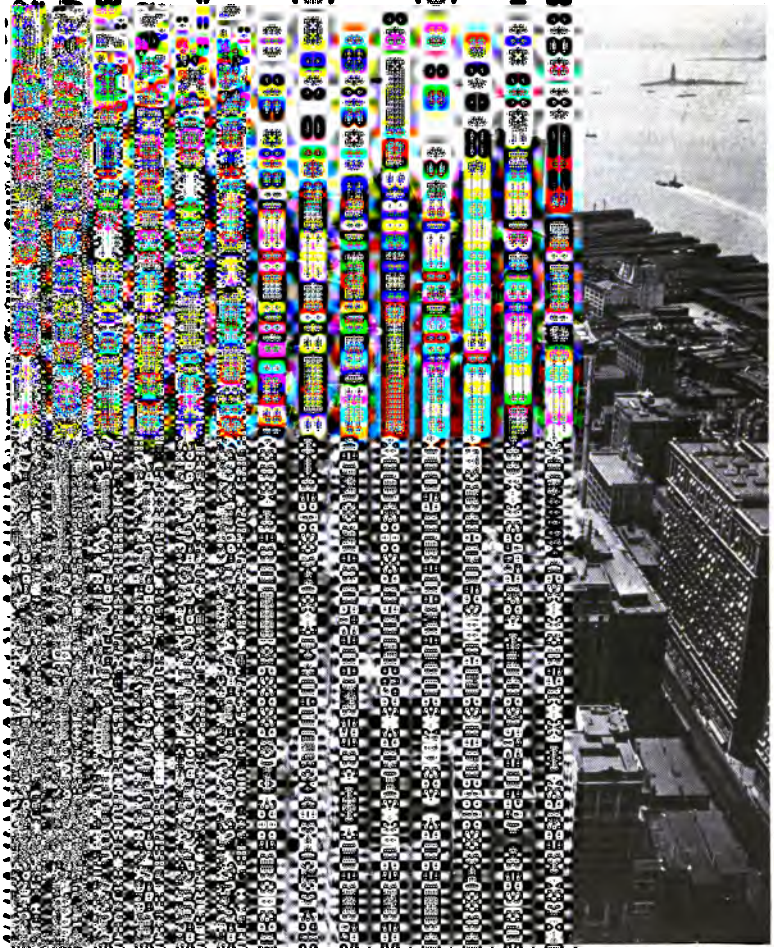

PHOTO BY EDWIN LEVICK

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Our exportations of raw materials and food supplies have proportionately diminished and of industrial products have increased, as is shown more fully in a subsequent chapter by Mr. Austin.

Today we are about to enter upon a period of vaster world commerce. Unprepared and even unwilling, we have been forced to play an important rôle in international economics. Suddenly and without warning, the great European war has forced upon us the privilege and the obligation of supplying the wants of a large part of the world. We are required to go into unfamiliar markets, and to supply there the goods formerly provided by the great industrial and exporting nations of Europe.

Assuming the Export Leadership of the World

This is a place in world economy which I believe we will not relinquish. The United States is about to become, if she has not already become, the great exporting nation of the world—and an exporter not so much of raw materials and food supplies as of manufactured and complicated industrial products which represent the highest stage in economic development.

The great European war has forced upon us the industrial leadership of the world. And thereby it has also brought home to us with singular force the importance of foreign trade. Three years ago it would have been difficult to arouse much serious interest in the Middle West or in the South on the subject of foreign trade. Overseas markets meant little to producers, manufacturers and merchants not located near the Atlantic, Gulf or Pacific seaboards.

Awake to the Importance of Foreign Trade

Today it is different. Our farmers in the Middle West have realized that because nations, thousands of miles away, have gone to war, and because the supplies of wheat from certain large wheat producing sections of the world have been cut off from their usual markets, there is a special demand for American wheat and the prices obtained for the largest crop produced in the history of the United States are the highest prices on record.

At the same time the producers of cotton in another section of the United States have had brought home to them with disastrous forcefulness the fact that a large part of the cotton crop of the United States is marketed in Europe, that when those markets were suddenly cut off the price of cotton went down and down until it was scarcely more than half of the usual price, and far below the cost of production. Both of those groups have suddenly and for the first time realized the importance of foreign trade.

As a matter of fact the whole nation has had an object lesson, staged on a tremendous scale, of the importance of that comparatively small proportion of our total trade that may be classed as "foreign." That small portion amounts to not more than ten per cent. of the total, and yet all of our difficulties at the outbreak of the European war were caused because that small percentage was disarranged.

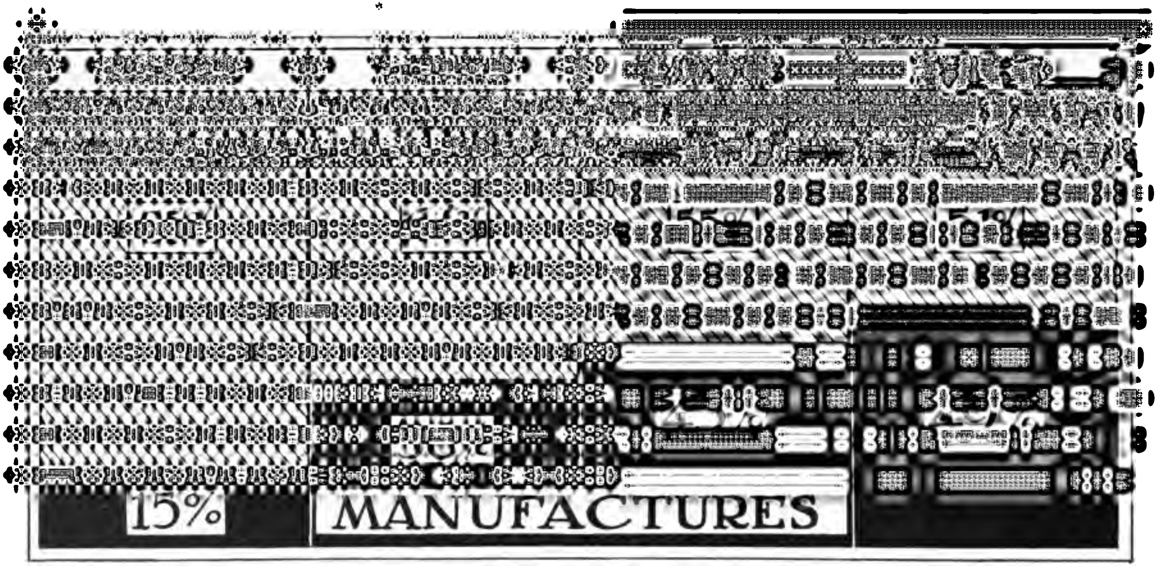
The importance of foreign trade to the United States is being recognized as never before. It is seen in the increased interest in the subject of a merchant marine for the United States. That service in the past was performed for us by foreign nations. Just now at the crucial moment when we wish to expand our overseas commerce, we find those nations at war. Many of the ships which would have carried our goods are being used to transport supplies for the belligerent armies. Many of them have been sunk. Others have been interned. As a consequence, the total supply of the world's ocean tonnage has considerably diminished. Freight rates have risen to unprecedented levels. With our bigger overseas commerce to be carried we find ourselves practically suppliants, praying our competitors for the small privilege of sending our goods to the very places where they are in greatest demand.

Recognition of the importance of foreign trade is also shown by the increased interest in the subject of foreign banking, and by the establishment of better banking facilities between the United States and other countries. Our largest bank has established branches in many parts of Latin-America, and has acquired a banking corporation doing business in the Far East. Large corporations have been established to develop industrial and commercial undertakings in all parts of the world.

Manufacturers in national conferences have come together to discuss foreign trade. The press of the country has devoted columns to it. Public interest, in a remarkable way, has become focussed on our international trade relations.

Our Position Before the War

In view of the apparently small interest taken in foreign trade prior to the outbreak of the European war it is surprising to learn the real importance of the United States in the world's markets. In the fiscal year 1912-13 our exporters sent abroad nearly $2,500,000,000 worth of products. This was exceeded only by the exports of Great Britain. We were the



WHY OUR MANUFACTURERS SHOULD LEARN ABOUT EXPORT TRADE

Records of our domestic exports in representative years show how manufactures are displacing crude materials and foodstuffs.

second exporting nation of the world, ahead of Germany and far outdistancing France. And, what is more significant, our exports during the last quarter-century have shown a steady and rapid increase. The exports of the United States have *doubled* in the last 15 years.

It is necessary and interesting to point out that a very large proportion of those exports consisted of raw materials and foodstuffs. This proportion, however, has been steadily decreasing during recent years.

In the decade, 1870 to 1879, the proportion of manufactured goods exported from the United States amounted to only 20.35 per cent. In the period, 1880 to 1889, it amounted to 20.05 per cent. In the period, 1890 to 1899, it had increased to 25.28 per cent. And in the period from 1900 to 1909 it amounted to 37.66 per cent. During the normal years immediately preceding the European war, from 1910 to 1914 inclusive, the proportion of our manufactured goods to our total exports amounted to 46.75 per cent. On the other hand the proportion of raw materials and foodstuffs exported from the United States steadily decreased. These movements are significant in themselves and would have been equally significant if their importance had not been forced upon us by the outbreak of the

European war and by the new rôle in international commerce which we in consequence are called upon to accept.

For the present and during the continuance of the European war the United States is and will be the most important exporting nation of the world. The exportations of Germany have practically ceased. Those of England, exclusive of the war supplies sent to her allies, have noticeably fallen off. Meanwhile those of the United States have very considerably increased.

War Munitions and the Growth in Exports

It is sometimes said that the recent increase in exports of the United States has been made up almost entirely of munitions of war and has been practically confined to Europe. These are not exactly the facts. It is true that our exports to Europe have vastly increased and have perhaps increased more rapidly than to any other part of the world. It must be borne in mind, however, that even in normal times the bulk of our exports have gone to Europe. In 1913-14, for example, we sent to Europe 62.86 per cent. of our total exports.

It is, however, erroneous to suppose that this large increase in exports consists solely of munitions of war. We may, for the sake of convenience, divide our exports to Europe into three groups: first, munitions of war, such as ammunition, rifles, guns, artillery; second, articles not actual implements of warfare, which are supplied to the nations now at war primarily for use in belligerent activities, such as copper, chemicals, motors; and third, articles which would have been exported in the regular course of events even in times of peace.

Of these three groups the first is the smallest in amount; the second group comes next, and the third is largest. Our exportations in this last group have enormously increased—due to the withdrawal of European men and capital from the usual occupations of peace. In part the United States has filled this gap and has supplied the warring nations with the things which in time of peace they would have supplied for themselves.

Trade with the Neutral Nations

It is equally interesting to note that in our export trade with other parts of the world, as well as with Europe, increases—perhaps more significant ones—have occurred. Our export trade has vastly increased in neutral markets entirely outside of the war zone. Compare the seven months ending with January of 1914 with the seven months ending with January of 1916. I have arbitrarily chosen this period because it was about the last of June, 1915, that the United States, and many neutral markets entirely out of the war zone, had recovered from the shock of the European war. On comparing these two periods, we find that our export trade with Canada has increased about 13 per cent. and our export trade with Central America has been about stationary. Our export trade with South America has increased by about 20 per cent., with Africa nearly 40 per cent., with Asia by a little less than 40 per cent. and with Australia by about 40 per cent. This very briefly, then, is the general situation of our foreign commerce at the present moment.

III

Retaining Our Increased Trade

WILL we and can we retain this increased trade? I believe that we can and we will. I find that most of the practical men in foreign trade believe that they will be able to retain perhaps not *all* of the new business, but a very large proportion of it at least. It is a question which I believe rests squarely upon the ultimate level of costs after the war. If costs in Europe are diminished, then the United States will be less able to compete with Europe than at any time past. If that were the outcome, Europe would undoubtedly be able to come back into the world's markets and secure not only the trade which we have built up during the war, but much of the trade which was ours previous to it. Under those conditions European nations would undoubtedly be able to get even more business in our own home market than ever before.

Level of Costs the Deciding Factor

I doubt, however, if that is to be the result. Logic and experience seem to point in the opposite direction. Let us consider for a moment the important items of cost. They are labor, capital, taxes and the efficiency of a going organization and connections. This last is often termed "good will."

Good Will

There is no doubt that the European nations are at present losing good will. Good will depends upon the ability to establish and to maintain a going business—just what the European manufacturers have been unable to do since August, 1914. American manufacturers and merchants are picking up whole, as it were, the good will that has been voluntarily dropped by their European competitors. Just recently a large English concern withdrew from business in Spain, closing its Madrid offices and recalling its manager. Its principal competitors had been German and American firms. With the Germans now entirely out of that market, the Americans are free to take over the good will built up by their former competitors.

Taxes

It is hardly conceivable that taxes in Europe will not be enormously increased as a result of the war. It is evidently the policy of all the belligerent nations to meet the costs of it, not by immediate taxation, but through funded debts. This war will be paid for by the taxpayers of the next 50 to 100 years; and the taxes will rest heavily not only on the people, but on industry.

Already the cost of capital in Europe has been much enhanced. Capital which could be had for two and four per cent. prior to the European war can scarcely be purchased for six per cent. now. In my opinion capital will be in great demand immediately following the war, not so much for immediate reconstruction purposes as for all kinds of new enterprises and replacements which will be necessary because present equipment is being worn out and because present initiative and enterprise are being stored up without outlet. The demand for capital will be great, the available amount of it will be limited, and in consequence the cost of it will be high.

Capital

The supply of labor, it seems equally clear, will be considerably diminished; consequently labor will be in great demand following the close of the war. Many of the best and most skilled laborers of Europe will not come back from the front. Many will come back maimed and diseased. Practically all of those who return will have lost that most valuable element in the European laborer, the habit of work. The European workman has been noted for his industrious qualities, for his loyalty, for the work spirit which is in him. This, in my opinion, will no longer exist among those men who have experienced the excitement of army life in the trenches and on

Labor

the battlefields of Europe. Labor, especially skilled labor, will be in great demand, and will consequently be high in price.

There is no need of our relying entirely on a theoretical explanation of the possible effects of the European war. We can go back, if we care to, and find out what happened in the years immediately following the Napoleonic wars, the Crimean war, our own Civil war, the Franco-Prussian war, and finally, the Russo-Japanese war. In the case of each one of these conflicts, we find that taxes were considerably increased and that the entire fiscal affairs of the nations were much disarranged. We find that both the cost of capital and the cost of labor were enhanced.

Effects of Previous Wars

We have but to compare the rates of interest immediately following the Napoleonic wars with the rates immediately preceding to see the very great increase which occurred. The London bank rate in the ten-year period preceding the Crimean war averaged three per cent. The rate for the five years succeding the Crimean war averaged 4½ per cent. Take the scale of wages which existed in the United States in 1860 as a standard, or 100, and we find that wages during the period from 1850 to 1860 varied from 90 to 100. We find that upon the disbanding of the army in 1865 wages went down to 66. Within the first year, however, and as soon as the temporary readjustments could be made, wages increased, and by 1870 were up to 134. Perhaps the most marked effect of war upon wages is that noticed in many of the skilled trades in Japan immediately following the Russo-Japanese war. In some cases wages increased from 80 to 100 per cent. in the two or three years immediately following the conclusion of peace.

What do these facts indicate? It seems to me that they forecast a generally increased level of costs in Europe following the war and, in consequence, a much higher level of prices than for the period immediately preceding the conflict. If these facts be true the United States will be better able to compete with the nations of the old world than ever before. We shall be enabled not only to hold our domestic trade, but in addition to make still further advances in outside markets.

Drawn Away from Our Isolation

Since the outbreak of the war we have learned our great lesson: That the United States was not, is not, and can not be an isolated nation. The United States is bound to other countries of the civilized world by ties closer than those of blood relationship. The vital importance of those commercial ties was revealed to us only by the greatest war of all times. We did not realize our dependence upon Europe, until we found our credit facilities snatched from us, the ships which had carried our commerce commandeered, the markets for many of our staple crops suddenly closed, and new markets with which we were not familiar suddenly opened to us.

We are not isolated. Our interests are vitally bound up with the interests of other countries. We can no longer, facing the facts as they exist, and facing the facts which have been driven home to us during the last few months, declare ourselves a nation apart and living unto ourselves alone.

As long as the war continues with unabated vigor the United States will continue in an abnormal and, in fact, an unhealthy economic position. We must not be led into the fallacy of supposing that the phenomena of business life which we see about us today are normal and will endure. The keen business man must carefully segregate those features in our commercial and industrial activity which are normal and permanent from those features which are war-caused and transient.

This much we can accept as true, that the longer the war lasts, the deeper will be its impression upon our economic life and the more enduring its effects. Already there have come into existence by reason of the abnormal world conditions many factors which two short years ago would have been scoffed at as impossible. The United States has attained a position of commanding importance in the world of international finance. We have contracted our output of cotton and have increased our output of wheat. Many products which a few months ago were imported from Europe are now being manufactured by American concerns, at a cost which—to the surprise of our manufacturers—is often cheaper than that in Europe. These facts point to a complete change in the economic position of our country and to a new rôle that we must take among the great trading nations of the world.

Sympathizing, as we do, with the great nations of Europe in their struggle for self-preservation, regretting the daily waste of capital and labor, and admiring the heroic efforts of the nations to sustain their economic organizations, we must not forget our own position. The advent of peace will bring with it consequences as grave as did the outbreak of war. We cannot continue to bask in a hectic and unstable prosperity. We are watching a struggle from which will result cataclysmic economic changes, as vital to us in their consequences as they will be to the contestants.

We can well follow the example of the warring nations which, in the thick of a struggle that would seem to absorb every energy, are looking to the future. Even now they are taking action to prevent or further, as the case may be, an economic invasion. They foresee, as we must foresee, a titanic struggle for commercial supremacy. The Central Powers are even now planning a close alliance for commercial defense and for commercial offense. The Allied Nations, especially those in western Europe, are planning preferential tariff arrangements which will prevent their present enemies from commercially invading their territory, and will encourage inter-ally trade. Much has been said, and perhaps accurately, about the possibility of special and preferential tariff arrangements between Great Britain and her colonies. It is even possible, although not so probable, that Russia will permit her present allies to enter her market on specially favorable terms.

Preparing for Peace

European nations are hard at work collecting and collating material which will serve as a basis for the negotiation of new commercial treaties. Great Britain is appointing commercial attachés in neutral and allied countries and trade commissioners in her colonies. She is collecting thousands of samples of manufactured products sold by her rivals in foreign markets. France, even in the midst of her present difficulties, is sending commissions of prominent officials and experts to many countries, our own included, to establish closer trade relations. Even the smaller countries of Europe are alert to the opportunities and the danger of the present situation.

It is sometimes urged that the hatred engendered by the war will soon pass away; that each country will seek the cheapest market in the end, without respect to nationality. In an unorganized market this might be true. But Europe is not unorganized. Legislation, taxation and organized public sentiment will be the means of continuing for decades, and even for generations, the commercial struggle which will grow out of the armed conflict. The United States, the innocent bystander, can not expect altogether favorable treatment at the hands of either group.

We may justly reverse the old saying: "In time of peace prepare for war." For us it should read, "In time of war prepare for peace."

Preparedness is a word which has come to have, within recent months, a special significance. It has possibilities of vast importance for the United States. Ordinarily we think of preparedness for war—military and naval preparedness. It is equally important, however, that we prepare for peace—economic, industrial and commercial preparedness.

Gained:—
An International Point of View

There is one general result of the great conflict in Europe which is perhaps more important and more significant than any other for the United States, reaching out not only into the field of commerce and industry, but into the field of politics and international thought as well. The United States has acquired something, which the United States and the people of the United States never had before, and that something is an international point of view. The people of this country have been individualists of the most extreme type—individualists not only personally, but nationally. We have talked in terms of the United States, we have acted in terms of the United States, we have existed for the United States and the United States alone.

Now we have suddenly become aware of the fact that there are other nations in the world, that those other nations are important to us, and that what they do seriously and vitally affects us. We have suddenly acquired an interest in those other nations—in what they are doing, politically, financially, industrially and commercially. In the future it will be impossible for us longer to devote our attention to things exclusively of our own country, and our policies, national and individual, will be to a considerable extent affected by the new international point of view which we have acquired. *We must prepare to play the part that has been thrust upon us in world commerce;* we must think in terms not of domestic trade, but of world trade.

IV

The Need for Trained Men

NOT long ago I remarked to the treasurer of one of the largest corporations in the United States — a corporation which maintains branches in many foreign countries—that there are two major problems facing us in the development of our overseas commerce: First, the problem of financing our foreign trade; and second, the problem of training men for foreign service. "Yes," he answered, "those are the two important problems. But I should be inclined to say in our case, and I believe it is true of many other large concerns, that if we can find the men to carry on our foreign trade we shall have no difficulty in financing it."

The Greater Problem Is Finding Men

The greatest need in every line of business in the United States today is the need for trained men. This is especially true in foreign trade. For in spite of the volume of its exports, this country has not in the past specialized in foreign trade. Only a comparatively small group of our manufacturers and exporters has been directly and largely concerned in business abroad; the bulk of our exports until a few years ago consisted very largely of raw materials and foodstuffs which practically sold themselves; hence the demand for qualified men has not been widespread and has not aroused general interest.

Nation-Wide Demand for Men

Today, however, it is safe to say that the demand for men trained in foreign trade is nation-wide. The export house, the export commission house, the import organizations, the ocean shipping companies, railroads, freight forwarders and express companies feel the need of men to fill the new positions created by the expansion of their activities. The banks need men acquainted with foreign exchange and international banking. Chambers of commerce and commercial organizations of various kinds want men to manage their foreign trade departments.

The United States Government in its Departments of Commerce, Treasury and State has felt the scarcity of trained men for the consular service and as foreign trade advisers, and especially of men with specialized training to serve on the staff of commercial attachés, commercial agents and special agents connected with the Bureau of Foreign and Domestic Commerce.

I might say, however, that the most insistent demands for men with foreign trade training come from manufacturers. They need salesmen and branch managers abroad; they need managers of export departments at home; they want, for various capacities, men who have mastered the principles of foreign trade work. They are beginning to realize the importance of export trade in building their future business and are seeking men with a knowledge of foreign trade to help them secure that business.

Chief Demand from Manufacturers

They turn first to the men in their immediate employ. In all lines of business, those men who are looking ahead to the future will find a big opportunity in the field. I know of a recent case where a man younger in age and in years of service than five of his associates, was chosen for a responsible and lucrative position merely because with an average amount of business sense he had combined an excellent knowledge of overseas trade. Foreign trade training is at a premium today in every progressive manufacturing plant and financial office in the country. The man who has acquired that training will be a lap ahead of his coworkers when the manager announces some day that he is looking for a representative abroad.

The men who will be able to take advantage of these opportunities must possess in the first place broad business sense—the qualities that we ascribe to a man when we say he has a "good business head." In the final analysis business is the same the world over and the man who has made a success of his work at home can be relied upon to succeed abroad if he has an understanding of the principles and methods of foreign trade.

Business Sense

I refer to the technical knowledge of foreign trade—the details of exporting and importing. Domestic and foreign business do not differ in fundamentals, but only in technical details. The conditions of shipping differ—the exporter must know how to invoice his goods and how to draw his shipping papers. Financing is different—he must know how to draw drafts and negotiate them. It is necessary to know the facilities available for getting goods into foreign customers' hands. He must know how his salesmen are to be equipped and routed. In fact, there are a hundred and one things of importance that go to make up the essentials of a foreign trade training. It is these things that have been included in the course you are beginning.

Technical Knowledge of Foreign Trade

It is necessary to remember that a man must know the business he represents. He must understand the product he is to sell. He must combine the technique of exporting with a detailed knowledge of his own business. He will appreciate this most when he finds in some little town in the interior of a foreign country a customer whose whole life has been spent buying, selling and studying the goods he represents. Nothing appeals more strongly to a customer than such full information on the part of the exporter and his salesmen. It is on this information that he must rely when put to his own resources in some market thousands of miles from the home office.

Knowing the Specific Business

How then are we to combine these two kinds of training—the theory of exporting and the actual knowledge of a specific business. My answer is to train a man *in his job*. In foreign trade especially it is not training *for a job* but training *in a job* that brings the best results. If our college educational facilities offered foreign trade courses in detail, a coordination of college and practical work might be arranged. Except for certain very restricted localities these facilities are very inadequate. It is just here that a well-planned course of reading and individual study is most useful. Every day will give the student opportunity to observe in his daily work the application of principles which he is studying. It is this feature of the present course in foreign trade that impresses

Training "in the Job"

me with its practical nature and its field for usefulness.

A final word as to what this training means to the business man. I shall forbear telling what I think it will mean to the nation—sustaining her standards as a trader and assuring the retention of her present foreign trade. It has a much more immediate and personal value to the employer. He is training the individual not necessarily for the individual's sake nor for the nation's. He is training the individual for the sake of his own business. He realizes that that business which is manned by the best trained men will in the long run be the most successful business. It is not a matter of philanthropy or altruism to train and educate his men. It is a part of efficient management so to train employees that they will be really efficient for the work entrusted to them.

Best Men Mean Best Business

I believe in having Americans to sell American goods. No movement seems to me so full of promise for our future foreign trade as the efforts on the part of our business men to train in their own establishments men with American ideals to represent them abroad. It is my hope that the present course in foreign trade will prove a valuable contribution in furthering that work and carrying it forward to a fuller and wider success.

ECONOMICS
OF
WORLD TRADE
BY
O. P. AUSTIN

World Trade Forces

IN November, 1795, there cleared from Salem harbor for a secret destination the good ship *Rajah;* captain, Carnes; owner, Jonathan Peele; four guns and ten men. Close-packed in her hold was a cargo of gin, brandy, tobacco, bar iron and dried fish. It was Mr. Peele's secret venture to the island of Sumatra. Eighteen months later the *Rajah,* to the great excitement of envious shippers, dropped anchor again in Salem harbor, filled to the hatch coamings with wild pepper, that showed a net profit of 700 per cent. on the cost of ship and voyage.

It was the era of the individual in foreign commerce. Export undertakings were conceived, promoted and carried to completion, often single-handed, by free lances in the world's markets.

Today the exporter is a unit in an enormous and complex mechanism. His shipment, be it one dollar or a million, passes through dozens of hands and reacts on the whole structure of world trade. He must fit himself into this mechanism and obey its laws.

What, then, are those influences that he must obey? What are the great world trade forces?

I

Basic Factors in World Commerce

THE distinction between “foreign trade,” and “domestic commerce” is primarily geographical. As the term implies, foreign trade refers to exchanges between countries, between great areas of the various continents. Trade within the borders of a country we call domestic commerce.

“Foreign” and “Domestic” Commerce

Valuable as the international trade of a nation often becomes, it is always of less money value than the domestic trade of the same people. In our country our domestic commerce, comprising the merchandise sold only a single time among our own people, is under normal conditions of trade ten times as much as all of our imports and exports combined. Including as it does all farm products and the output of all mines and factories, our domestic trade totals $45,000,000,000 a year, as compared with about $4,500,000,000 in our foreign trade. This statement relates to normal conditions, such as obtained previous to the European war. During the single calendar year 1915, our exports alone were $3,500,000,000, a full billion above normal, most of this gain being in exports to Europe.

The enormous resources of domestic trade are thus a vast reservoir upon which foreign trade can draw for its expansion.

The Governing Factors in World Trade

The principles underlying international commerce may be divided roughly into two major groups. The first group includes those basic factors upon which world commerce is built.

The second group comprises a multitude of minor factors, having a close relationship to the basic factors, but less indispensable and more indirect in their effect on trade.

In this first chapter we shall consider the first group, comprising the essentials of trade —which are three in number.

1. Division of labor.
2. Transportation, aided by intercommunication.
3. Finances.

Division of Labor the Basis of Trade

The exchanges in world commerce are due to a division of labor among men and among great groups of men. It is well understood in industry how the most successful factories are those which assign to each man or group the task of making a given part of the article to be produced. By keeping hour after hour and day after day making that particular part, the group becomes more and more expert in performing that specific task. This principle prevails, perhaps unconsciously, in the distribution of the duties of world production among nations, continents and climatic areas. The tropics are capable of supplying certain natural goods that the temperate zones cannot produce. In turn the temperate zones can provide manufactures which the dwellers in the tropics need.

The farmer of the Mississippi Valley, who requires the wool of Australia, the silks of China, the jute bagging of India, the rubber of Brazil, the tin of the Malay Peninsula and the coffee of South America, does not trouble himself as to how these articles are to be brought to him. He knows that by giving his attention to growing wheat and corn, for which his section of the world is especially fitted, he is sure of being able to buy all these articles at his own door.

Similarly, the people in other parts of the world, whether in the plantations of South America or in the mines of the Orient, know that they can exchange their respective products for the food of the western prairies or the manufactures of the great mills of the United States and Europe.

The Chinese coolie working in the tin mines of the Federated Malay States finds that

Half-way Around the World and Back

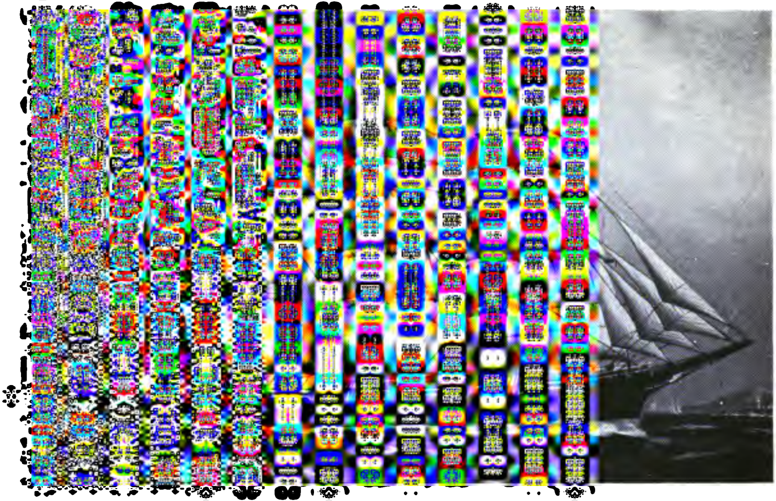
the wages he receives for his labor will enable him to buy, more easily than he can himself make it, the empty five-gallon kerosene tin which he cleverly converts into various sorts of household utensils. The tin-plate used in the manufacture of this can has been plated with the very tin he has dug from the mines, and which has thus traveled half-way around the world and back to him.

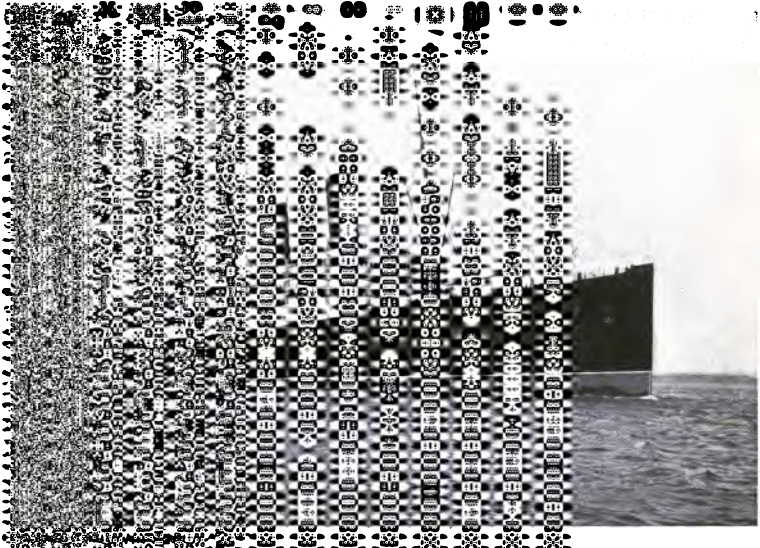
The workman in Great Britain with one day's labor in the factory can pay the cost of transporting a year's supply of bread and meat from the Mississippi Valley to his own door. He is, therefore, content to leave that portion of world duties to the American farmer and to devote his own attention to making cotton goods to be sold in the Orient or South America.

It is this broad geographical division of labor among the peoples of the earth that is the basis of modern international exchanges.

The Carriers of Commerce

2. Coupled with the world-wide division of labor is an enormous transportation system reaching to the various markets of the world. The international exchange of goods requires some one to carry the products as well as some one to make them. Ships, railroads and cable lines are vital factors. Man occupied thousands of years in developing an international





[illegible] THE WORLD'S MERCHANT FLEETS

[illegible] was an important [illegible] the last century.

trade of less than $2,000,000,000 up to the beginning of the last century. Then, within 100 years he increased that trade 20-fold. This phenomenal growth of commerce is largely due to the increase in ships, railroads and cable lines.

International Commerce of the World

Year	Total International Commerce	World Population	Commerce Per Capita
1800	$ 1,479,000,000	640,000,000	$ 2.31
1880	14,761,000,000	1,439,000,000	10.26
1913	40,420,000,000	1,652,000,000	24.47

The Growth of Merchant Fleets

Up to 1840 the world's commerce was carried in sailing vessels, slow and uncertain. The first steamship crossed the Atlantic in 1819, but it was not until 1840 that a regular service across the Atlantic was put into successful operation. At that time the carrying power of the steam-propelled ocean tonnage was less than 500,000 tons. In 1913 the steamships of the world had 27,000,000 tons of carrying power.

Not only has the tonnage increased, but also the speed, so that the annual carrying power of each vessel-ton is now double that of half a century ago.

The growth of the great merchant fleets of the world—of England, Germany, Japan and others—and the improvements in the construction and equipment of ocean-going vessels have stimulated commerce in even the remotest parts of the world. New shipping lines are started each year, reaching out to parts of the earth's surface the trade of which justifies a direct steamship service.

The Growth of Railways

An even more remarkable growth followed the application of steam to land transportation. All the railways of the whole world in 1840 aggregated but 5,000 miles of short, disconnected lines. In 1913 there were 700,000 miles of railroad, well organized and interconnected. This growth in mileage was attended by such an improvement in equipment and such an increase in speed that even within the last quarter-century the carrying power of each mile of railway has been doubled.

The immediate effect of this enormous development of transporting powers has been to open up great productive areas formerly unable to contribute to world commerce because of remoteness or inaccessibility. A striking example may be cited from the history of our own country. Take the enormous section of the United States lying west of the Alleghany and Cumberland mountains. In 1840 it had practically no railroads. In 1860 it had less than 15,000 miles. In 1915 it had 200,000 miles.

How Railroads Aided in Developing U. S.

The railroads brought population and prosperity with them. This enormous section had, in 1840, only 6,000,000 inhabitants; in 1915, 60,000,000. This nine-fold increase occurred while other parts of the United States were experiencing only a four-fold growth. The value of its farm products, about $300,000,000 as late as 1860, was more than $6,000,000,000 in 1913. Its manufactures grew from less than $500,000,000 in 1860 to more than $8,000,000,000 in 1910. Transportation was the key to this prosperity.

Likewise the South American continent, which had practically no railways in 1850, has developed 50,000 miles of line; its exports, which were then about $125,000,000 per annum, are now practically ten times as much.

India, long a densely populated country, has since 1860 secured a railway system of 35,000 miles, and her foreign commerce has quintupled, although the population per square mile shows but slight increase. Japan has in recent years developed a railway system of 7,000 miles on an area less than that of California, and with it a fine steamship service to all parts of the world. As a result, her foreign commerce in 1913 was ten times that of 1880.

It is the need of transportation facilities that accounts for the backward trade conditions in such enormous world areas as China and Russia. China, with a population exceeding 330,000,000, had but 6,000 miles of railroad at the beginning of 1914. Russia, with over 170,000,000 inhabitants, had in the beginning of 1913 less than 47,000 miles of railroad. The untold wealth of agricultural products and minerals of these two enormous areas will be added to the volume of the world's trade when railroad systems have been extended throughout both countries.

A century ago it took practically a year to send an order to China and get the merchandise landed at the docks in New York. Now

Cables, Telegraphs and Telephones

the merchant who learns today that he can handle certain merchandise from the other side of the globe, if he can obtain it within 30 or 60 days, may cable his order and before the end of the day receive the information that it will be placed on shipboard at once. If necessary, he can also cable an order on his financial correspondents in that part of the world to pay the shipper for the merchandise and see that it is promptly started on its journey. This facility for communication is due to the fact that the world has now 300,000 miles of cables, 6,000,000 miles of telegraph wire and 37,000,000 miles of telephone wire in daily use. In addition, merchants can now transmit wireless messages across the Atlantic and thence step by step around the entire globe.

The Finances of Commerce

3.

Money in some form is an absolute necessity of commerce. The world's supply has kept pace with the growth of trade and its quality has improved. Formerly, many nations utilized silver as a basis for currency, but its fluctuations in value as compared with gold have shown the advisability of reaching a more stable basis. Now practically all of the important countries of the world, except China, have adopted gold either as an actual currency or at least as a nominal standard for their paper currency.

There has been an enormous increase of this metal. In contrast to the products of the soil, such as wheat or corn, the precious metals are not consumed from year to year, but a large share of each year's product is added to that formerly accumulated. Practically two-thirds of the gold mined from year to year is kept for money purposes. When we consider that the world's annual production of gold is now 40 times as much as the annual average prior to 1830, and four times as much as the average in the quarter of a century preceding 1890, we begin to realize that the world's supply has enormously increased within a very brief period. The quantity of gold produced in the world in the 25 years since 1890 is as great as that produced in the 400 years preceding 1890. The world's stock of gold is now, approximately, twice as great as in 1890 and nearly six times as great as in 1850.

Banking Power

Banks and banking have also greatly increased the amount of circulating medium based upon this heaped-up stock of the basic metal. It is of interest and of great importance in understanding the enormous growth of world commerce which has characterized recent years to realize that the world's "banking power," by which is meant capital, surplus, deposits and currency of the banks and similar institutions, has grown, according to the estimates of students of this subject, from approximately $2,000,000,000 in 1840 to about $60,000,000,000 in 1913.

Money, in some form, is the life blood of commerce. This growth of gold, currency and banking power has been one of the stimulating factors in the tremendous expansion of world trade during the past century.

II

Other Factors in World Commerce

IN Chapter II we shall proceed to the factors included in the second group. To present a detailed discussion of all such influences is quite beyond the scope of the chapter. It is the author's intent to select the more potent of the minor forces and devote to them sufficient space to indicate the part they perform in the vast mechanism of world trade.

The factors treated will be eight in number, as follows:

1. The Export of Surplus Production.
2. The Export of Capital.
3. The Control of Transportation.
4. Colonization and Emigration.
5. Trade Routes and Trade Centers.
6. The Seasonal Movement of Commodities.
7. Artificial Stimuli to Trade.
8. Protection and Free Trade.

It may be accepted as a general axiom that a nation does not begin to export an article until after her domestic need of the article has been satisfied. The urgency of home demand regulates price and sale. When that urgency abates, it is usually a sure indication that supply is overreaching demand. Prices fall. A surplus is being created which must seek an outlet beyond the borders of the country.

The Export of Surplus Production

Exportation ensues. It might be said that in its large volumes foreign trade is the purchase and sale of surpluses.

A study of the effect on home industry of this sale of surplus productions brings to light many of the important underlying benefits which foreign trade renders to a nation.

The first benefit is naturally the profit on the transaction. Net profit is the only valid reason for pursuing overseas trade. The manufacturer of axes, let us say, who sends to South America 25,000 axes a year must show a profit or his business is commercially unsound.

But a profit on what? The answer to this question reveals a return not evident at first glance. A profit not necessarily on the individual sale, but on his business as a whole. Export trade reduces and stabilizes production costs in 99 out of 100 cases. Few if any factories supplying a purely domestic trade can boast 100 per cent. efficiency. Assuming, for instance, that the manufacturer of axes has a factory capable of turning out 100,000 axes a year, valued at $100,000; that his home market can consume only 75,000 axes a year, and that he does no export trade. It is evident that he must reduce his possible output by 25,000 axes with no proportionate reduction in the interest charges on his plant and its equipment or in his taxes, and often with only a slight reduction in his total costs of labor and materials. His costs per axe naturally rise; and it would be better for him to place the extra 25,000 axes in a foreign market even at cost. The resulting cheaper production will permit him to show a greater net profit and will put him in a better position to meet his competitors in both home and foreign markets.

How Export Trade Helps Domestic Prosperity

Thus it is that foreign trade adds to domestic prosperity. To this factor must be attributed the industrial strength of most of the nations of Europe. It is impossible to imagine Great Britain the world power she is without her huge annual export of available surpluses.

By contributing to the financial stability of a business foreign trade offers a still further advantage to the manufacturer. Every market abroad tends to lessen the total risk of the manufacturer's business. He is distributing his trade outlets. A period of financial depression in the United States need not necessarily affect the sale of his goods in Russia. Whenever a disastrous slowing up in demand is discernible in American markets, there is quite certain to be some foreign market where consumers are eager for his products. "Don't be a 'single-mast' manufacturer," said a prominent exporter recently. "One well-directed shot some evil day will bring you down. Build your business on the 'peach-basket' method—the way Uncle Sam erected the masts on his battleships; then your opponents may shoot away as many of your supports as they can; so long as they leave one standing, you'll be ready to go on fighting!"

It is the monopoly control of such surpluses as the nitrates of Chile, the dyestuffs of Germany and the rubber of Brazil and the Far East, that has given nations unique and powerful positions in world trade. The manufacturer will find his surplus one of his handiest weapons in pushing both his domestic and overseas trade.

The "Dumping" Evil

Unfortunately the export of surpluses is not without its abuses. It is evident that the flooding of any market with a mass of goods at cheap prices—often far below actual production costs—will seriously derange the existing economic status. This abuse has become known as "dumping." It results usually from an unexpected amassing of surpluses that must be marketed without delay. The fear has been expressed, for instance, that the Central Empires of Europe after the war will have enormous quantities of merchandise, held back since the disruption of outside trade connections, and that they will flood world markets with these goods at the best prices they can get, no matter how low.

The marketing of surpluses should proceed normally and steadily. The evils of surplus selling arise when the manufacturer regards his foreign markets as only a safety-valve—to be utilized when convenient and to be neglected at will—to the great irritation of the foreign customer. To sum the matter up, foreign trade, the sale of a nation's surpluses, must adapt itself to the normal channels of trade. Mutual consideration is demanded by the customer overseas. He must not have his interests cast aside during the lean years. "Once a customer, always a customer," should guide the exporter in his dealings with the consumers of his surpluses.

Commerce follows invested capital.

The Export of Capital

Every dollar invested in a backward country does two things. First, it encourages the advancement of that country to a higher degree of economic efficiency and of commercial potentiality. The less wealthy nations of the world depend upon the more wealthy for the funds with which to develop their natural resources. In proportion as the leading nations of the world provide these funds, the contribution of the borrowing nations to world commerce enlarges.

Second, it directs the purchases of the backward country to the lending nation in preference to others. The loans of European nations to South America influence that continent to buy of Europe. In many cases stipulations are embodied in the terms of the loan obligating the borrower to obtain all supplies from the lender. So potent has become the leverage which the capitalistic nations exert by virtue of their loans, that the export of capital in many cases is more powerful than all other factors in directing the movement of trade.

The nations of Europe—the great leaders in the financial world—have long recognized this principle and have reaped these collateral benefits. They have had their fingers on the pulse of every nation of the world, eager to capture every profitable investment. So we find the British-owned railways and the German-owned lighting plants in South America returning a steady stream of orders, as well as dividends, to the home countries.

It is estimated that Great Britain has invested in foreign countries and colonies about

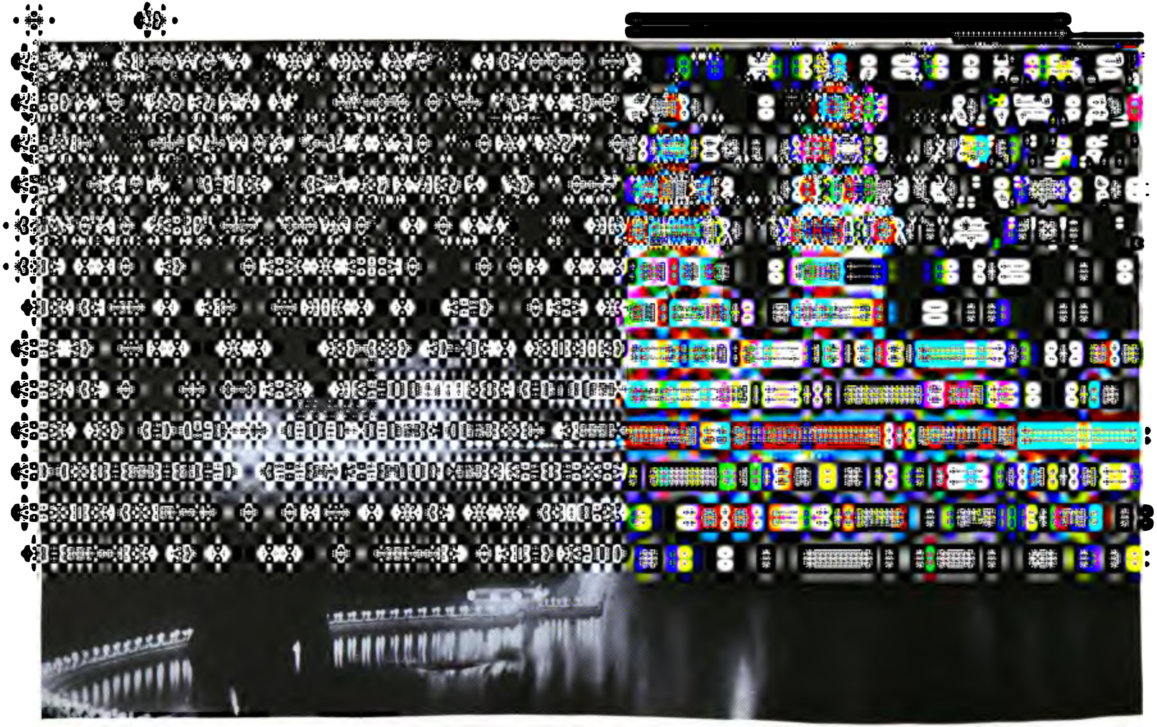


PHOTO BY BROWN & DAWSON & E. M. NEWMAN

A GERMAN INVESTMENT IN SOUTH AMERICA

The electric light and power business in Buenos Aires, Argentina, is controlled by German capital.

$20,000,000,000; France, $10,000,000,000; Germany, $8,000,000,000; the Netherlands, $3,000,000,000; Italy, the same, and Belgium and the United States, $2,000,000,000 each. In South and Central America alone there is some $10,000,000,000 of European capital invested, of which $6,000,000,000 is British, $1,500,000,000 German, and the remainder chiefly French, Italian and Belgian. It is a well-known fact that these countries, especially Great Britain, Germany and France, have had the lion's share of South America's import trade.

A philosopher has said: "Balance is the fundamental verity." To foreign trade this axiom has a peculiarly fitting application. A nation cannot remain a prosperous trader if she sells and does not purchase. Her capital going out to foreign lands should balance the capital flowing in to pay for exports. From her profits and her savings she must provide the means of opening to world commerce new areas in the backwater parts of the world. A New York banker recently expressed it as his opinion that foreign commerce can not reach its maximum prosperity until the profit on the outward volume of products is devoted to the purchase of foreign interest-bearing securities, and the inward volume of trade thus balances more truly the outward.

The Control of Transportation

3. Much discussion has been devoted recently to the part that the control of transportation plays in increasing a country's trade. It is argued by some that the merchant vessels of all nations compete with each other to secure the ocean traffic of the world, and that, as ocean freight rates are determined by this competition, it is of little material interest to a nation's foreign trade whether her goods be carried in vessels of her own or of foreign registry. The argument does not sound convincing when we try to picture Great Britain rising to premiership among the trading nations of the world without her huge merchant marine.

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Regularity and reliability of service attract trade. A merchant in South America, with the fixed time schedule of the European steamship lines before him, is decidedly more likely to order goods from Europe than from North America, where sailings are less frequent. The friendly relations existing between the steamship company's representatives both at home and abroad and the merchants of the trading countries are often a deciding factor in diverting commerce to a maritime nation.

Despite these advantages some nations have built up a world trade without a merchant marine. It often happens that capital in a rapidly developing country finds more attractive opportunities in the natural development of the country itself than in the operation of ocean ships. Take the case of the United States. We have had railways to construct, mines to develop, manufacturing industries to upbuild for the supply of our rapidly growing population and for the expansion of our trade. Capital has found these forms of investment more attractive and profitable than building steamships which must compete with those of older countries where capital is more plentiful, interest rates lower and cost of construction and operation less. Nevertheless we have developed a great foreign trade.

It is safe to assume, however, that this growth has occurred *despite* the handicap of scarcity of vessels of American registry. A careful review of the history of maritime nations leads to the conclusion that the control of transportation gives a nation the opportunity to wield a powerful influence in her own interests upon the currents of world traffic —an opportunity that has been England's great weapon in the present war.

In the history of world commerce no arbitrary act of man has had such a remarkable effect upon the world apportionment of commerce as colonization. The crossing of the

Phœnicians to North Africa, the adventuring of Roman traders to Gaul and Britain, the sea voyages of the Spanish, the Portuguese, the Dutch and the English in later years to America, the Indies and Australasia, were the forerunners of commercial relations international in scope.

Colonization and Emigration

These early efforts at colonization were primitive. They consisted of the direct establishment in other parts of the world of a fair-sized group of people from the mother country. It was this kind of colony—going to inhabit a waste or thinly-populated area—that Adam Smith said "advances more rapidly to wealth and greatness than any other human society."

The other and more recent type of colonization is the establishment of governmental control over an area already occupied, as by Britain in India and by the United States in the Philippines. The former type of colonist is now rare, due to the scarcity of unoccupied countries similar in climate to the one he is leaving. The later type is now more frequent and is found chiefly in tropic regions.

Colonization is recognized by governments as more than an outlet for a crowded population. Colonies have always had a money value in the eyes of the parent nation. Hence, in administering government, colonial powers have always employed various artificial means for fostering trade with the mother country. When the Dutch government exercised control over the East Indies through the Dutch East India Company, decrees were repeatedly formulated for the better control of the spice and coffee trade, the improvement of transportation in the islands and the increasing of the country's productivity. The first governor-general sent out in 1608 had instructions to see that Holland retained complete monopoly of the trade of the islands. Ports were fortified against hostile traders of Portugal and England and the history of the settlements is filled with accounts of the futile attempts of other nations permanently to wrest away the "Spice Islands" from the Dutch.

One-Third of the World's Population in Colonies

At the present day, colonies—including all territory not contiguous to the country by whose government it is controlled—occupy two-fifths of the land surface of the globe and contain one-third of the world's population, or over 500,000,000 people. Of these dependent peoples only three small groups, numbering about 15,000,000, or 3 per cent. of the total, are composed in any considerable degree of the people of the governing country or their descendants. More than 95 per cent. of the people of the colonial sections of the world are of stock different from that of the governing country.

To these enormous areas the colonizers, largely from Europe, have brought the customs, the arts and the political ideals of civilization, and have made the backward nations factors of untold importance in international trade. In a later chapter consideration will be given to the great advantage that Europe enjoys from her colonies in the fight for world commerce.

The examples of Alaska and the Philippines in our own history demonstrate the advantages of stable and progressive government. Alaska, which we purchased for $7,200,000 a half-century ago, is now sending us gold, copper, fish, furs, oils and other products worth $50,000,000 per annum, or nearly seven times as much as the original cost of the territory. This wonderful development, with meager transportation facilities, has resulted in the appropriation of large sums of money by the government of the United States to construct a railway system by which the producing powers may be still further in-

A 700 per cent. investment

creased. The Philippine Islands, which have enlarged their commerce from $30,000,000 to $100,000,000 since they came under the American flag, have only begun the trade expansion which a continuance of American protection will insure.

The Influence of Emigration

To a somewhat less noticeable degree emigration from the European countries has played an important rôle in the development of already established countries and of international trade. The 100,000 immigrants who enter the United States each month supply us with labor, and by their demand for the goods to which they are accustomed in their native countries add to the volume of our international exchanges. The presence of the white man in China has greatly stimulated the trade of that country with the outside world.

Nations have realized that their emigrants are often their trade pioneers. Germany, in certain countries of South America where large settlements of the empire's emigrants have practically Teutonized several of the towns, has built up a flourishing business. In spreading the use of certain specific manufactures emigration has played a leading part. The spread of the automobile and the cinematograph over the entire world in less than a quarter-century has been largely due to the presence of peoples of European or American origin in the various nations of the earth.

In brief, the intermingling of the different peoples has tended to universalize the usage and the consumption of world merchandise and to direct the demand for that merchandise —especially manufactures—to the nations most active in sending their peoples abroad.

Trade Routes and Trade Centers

No phase of international commerce stirs the mind to such a vivid realization of the working of the great trade forces as does the rise and fall of great trading centers. In turn no one trade force has wielded such an influence in shaping the destiny of world marts as has the growth and change of the great trade routes.

The fate of Bagdad and Venice in the trade with the nations of Asia affords a historic example. Bagdad, with its caravansaries and market places—the rendezvous of traders from Persia, Arabia and the East—long dominated the land traffic between Europe and the Orient. It was the great center for the caravan routes between East and West. Likewise Venice—with her enterprising merchants pushing into every Mediterranean country that offered goods for sale and her commercial institutions surpassing those of any other city —monopolized the sea trade east of Italy.

In 1497 Vasco da Gama rounded the Cape

of Good Hope. A new route to the rich East was opened—free from the depredations of the Moors, Algerians and Turks—and the decline of Venice and Bagdad as trade centers began. Venice saw the ports of northwestern Europe supersede her, and Bagdad fell back, little by little, to its present position of minor importance. In the East, Batavia became a trading center for the Indies, and Canton for South China.

In 1869 a second change occurred following the completion of the Suez Canal. The Cape lost its importance, the Mediterranean ports —such as Marseilles and Genoa—came to the fore, and in the East, Singapore on the new route to China superseded Batavia.

The opening of the Panama Canal forecasts a similar change in our times. Already a new stimulus has been given to the shipping trade of the United States.

But a great financial center requires more than a good harbor inviting the ocean carriers to its anchorage. A study of the great seaboard trade centers of modern times—for example London and Liverpool in England, Marseilles in France, Hamburg and Bremen in Germany, Bombay and Calcutta in India, Hongkong and Shanghai in China, Buenos Aires in Argentina, Rio de Janeiro in Brazil, and New York, Boston, New Orleans, San

Francisco and Seattle in the United States—will show how essential to the standing of the trade center is a rich inland served by a network of railways that lead to the ocean.

Among the centers of the world none has so consistently maintained its supremacy as has London. Even previous to 1500 A. D., it was controlling half of England's commerce. Today it is still the greatest center of trade and financial operations in the world. It is the home port for half of the world's foreign shipping, and the market for hundreds of the staples of commerce.

With the war new importance attached to New York as a center. The quantity of goods coming for reexport increased and the dollar began to rival the pound sterling in foreign exchange.

The traders of the world demand a market place, and the possession of a great trading center assists a nation to build a flourishing foreign trade and maintain its prominence in the commercial world.

Seasonal Movement of Commodities

The volume of commodities—especially agricultural products—entering world commerce varies with the seasons. In many agricultural nations the increases and decreases in that volume—as well as their regularity—record the business pulse of the nation. An abundant coffee crop on the plantations of Brazil, a fine yield of tobacco in Sumatra, a "bumper" wheat crop in the United States, react without fail upon the country's place in world commerce.

The seasonal movements of commodities also affect world distribution. When the annual crops of wheat, of other cereals and of cotton fill trainload after trainload to our seaboard ports, the demand for shipping becomes more and more insistent. The strain on our financial institutions handling the payment for these exports increases. Ships and capital are diverted from other services to accommodate these products. Ocean freight rates rise, and where every cent counts in the fight against competitive goods it is often of vital importance to the shipper whether or not he is located at a port where a temporary seasonal increase in shipping has enhanced the shipping rates.

Some relief in this regard has resulted from the entrance of Australia and Argentina into the list of food-producing nations. Since the seasons in the southern hemisphere are the reverse of those in the northern, the crops of these countries are ready for distribution six months later than those of North America. This more even division of labor in the task of feeding the manufacturing nations has tended to stabilize the foodstuff trade.

Artificial Stimuli To Trade

From earliest times nations have exerted governmental control over trade. Monopolies have been defended by force of arms. In the seventeenth century clashes occurred in the Far East between Holland, Portugal and England for the control of the valuable trade of the Indies. The war of 1812 grew out of restrictions placed on our trade by Great Britain. It is safe to say that the present war recognizes commercial rivalry as one of its contributory causes.

Peaceful methods as well as force of arms have been employed to further trade. Government subsidies have been voted to assist shipping; political influence has been exerted in the capitals of the world in the interests of trade; embassies, commercial attachés, consular representatives, investigators, are working in every appreciable market abroad to direct trade to the home country. Chambers of commerce, trade organizations, export conferences and manufacturers' associations at home guard the interests of the nation in the world trade.

Foremost, however, among the methods adopted by nations in their endeavor to influence foreign trade has been the customs tariff—designed for "protection." Originally, protection was the effort of governments to develop manufacturing industries by means of the levy of discriminating duties upon competing goods from foreign countries. By degrees additional assistance was given by the grant of bounties and premiums, of rebates and drawbacks, so that today protection applies to all the means by which a nation undertakes to secure complete industrial and commercial development through government intervention in the natural course of trade.

Protection

The opponents of protection—the "free traders"—argue that such restraints laid upon the movement of commerce have an injurious repressive effect. Without entering into the economics of this greatest of trade controversies, it is possible to state that if there is such a repressive effect it is far less than is usually supposed.

Free Trade

At no period in the recent history of commerce has the protective system been so generally in operation the world over as in the past 20 years; yet that very period is the one in which the growth of international trade has been most strongly marked. The international trade of the world doubled in value in the 13 years between 1900 and 1913.

While doubtless the application of highly protective duties to certain articles often reduces the quantity imported, it necessarily stimulates the domestic production of these articles and in so doing usually increases the demand for raw materials from abroad.

In the case of the United States, which has been looked upon as an extreme example of the protective system in nearly all of the period since the Civil War, the growth of imports as a whole remained steady and continuous, most of the striking increases occurring in manufacturing materials. The total value of imports quadrupled between 1870 and 1913. Finished manufactures increased 135 per cent. in that period, manufactures for further use in manufacturing increased over 500 per cent., and raw material for manufacturing increased over 1,000 per cent. At the same time, exportation of finished manufactures in that period showed an increase of nearly 1,300 per cent., of raw materials for manufacturing about 250 per cent., and of foodstuffs over 400 per cent.

So whatever may be the result of a protective tariff upon the importation of individual articles or upon the manufacturing industries of the country adopting it, the effect upon the total value of international exchanges of merchandise is apparently stimulative rather than repressive.

III

Probable Expansion of World Commerce

WITH the close of the last century, the world rounded out the most remarkable period in its commercial history. Looking forward to the future, have we any assurances that world trade will continue this unusual growth, or has it reached its zenith?

Making due allowances for the set-back which may be expected from the war, we shall still find that man has at his disposal today mighty forces which can be directed toward trade expansion. With enormous areas of the globe yet to be conquered for trade purposes—although future growth may not be as rapid as it was directly preceding the war—there seems ample reason to believe that there will be a steady, consistent increase.

Steam Power in Ocean Traffic

As in the past, so in the future, steam power will be employed on ocean and on land in opening new territories. Steam-driven vessels are now reaching practically all parts of the earth. Each year, however, sees a greater number. The turbine engine is increasing speed; steam-loading and unloading machinery is cutting down idle time at the docks; and steam en-

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[illegible] on, and yet [illegible] ch, we realize what a future is in store when China's hinterland becomes accessible.

China has but one and one-half miles of railway for each 1,000 square miles of territory. Japan, her next-door neighbor, has 40 miles of railway for the same unit of area. China's exports are only 70 cents per capita per annum; those of Japan are $5.50 per capita per annum. If China, which now exports no more in a year than we sometimes do in a month, can be developed as intensively as Japan has been developed, the addition to the volume of the world trade will be enormous.

Let us take another example. Brazil, producing such valuable articles of commerce as coffee, cacao, rubber, hides and cotton, and having more miles of navigable rivers than any other country of the world, has, nevertheless, exports only one-third as large per capita as those of her next door neighbor, Argentina, the railroads of which are four times as much per capita as those of Brazil.

Railroads Under Construction

Great railway undertakings are now under way in various parts of the world; the Cape to Cairo railway, which has begun to open up the interior of Africa, is being extended from the south and the north and the two sections will, before long, be joined in the center of that great continent. With the construction of lateral lines thence to the head of navigation on the Congo and to the ocean frontage at the east, this railway will multiply many times the production of that section of the world. In doing so, it will equally multiply its purchases from other parts of the globe.

New railway lines now in construction in northern Argentina and Bolivia will connect the systems of the eastern and western parts of South America and give to that continent another transcontinental line, thus increasing somewhat the facilities for moving its agricultural and mineral products to the water's edge.

Russia, seeing the great possibilities of production in her vast unoccupied area at the north, has constructed the Siberian railway line 6,000 miles long connecting the Atlantic with the Pacific. Now she is constructing another which will connect her capital city, whose harbor is ice-bound at certain parts of the year, with a part of the northern coast, where the Gulf Stream gives sufficient warmth to render it ice-free at all seasons of the year.

During recent years the extension of inland waterways and canal systems has done much to open up new areas and to accelerate international commerce. During 1914, the Panama Canal was opened, and in 1916 reopened. This has shortened trade connections between our

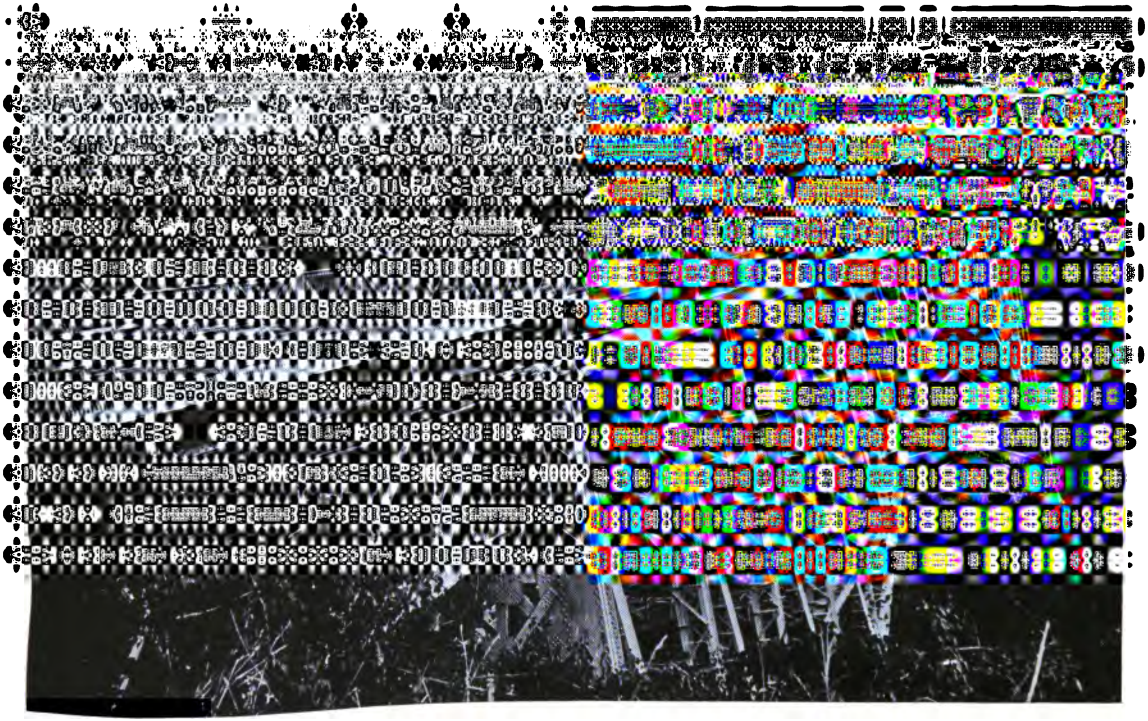


PHOTO BY BROWN BROS.

OPENING UP THE "DARK CONTINENT"

A bridge, built of American steel, on the Cape to Cairo railroad in Africa

Atlantic seaboard and the west coast of South America as well as between Europe and all Pacific America except southern Chile. It has also offered a quicker route from New York to Japan, China, New Zealand and Asiatic Russia. The consequent shifting of the routes of world commerce is just beginning. The benefits to be derived from the canal will largely be felt in the future.

Artificial Waterways Will Add to Future Trade

The enormous power of electricity may also be turned to further account in increasing international trade. The forces latent in some water-fall hidden in the depths of the jungle can now be transmitted over a single wire to all parts of neighboring regions for the development of the productive powers of the country. The use of electricity for transportation, manufacturing, heat, light and power should give an enormous impetus to industry and thereby to international commerce.

Electricity Conquering Barren Lands

The successful use of water-power in the form of electricity in widely scattered places of the earth already attests its commercial value. The mountain streams of Norway are rapidly being harnessed. The Riksgränsen Railway in Norway, the most northerly in the world, is now electrified and the cost of transporting its principal article of freight, iron ore, has been much reduced. In northern Chile electricity is being transmitted 87 miles inland to develop a copper mine. In Switzerland, steam locomotives on the railroads are being replaced by others electrically driven. In British India, China and the Dutch East Indies, electricity by providing better light is improving the conditions and is thereby increasing the value of those regions for international commerce.

The Motor Truck Piercing Fertile Regions

Through the development of the commercial automobile, trade should get increasing service. The motor truck now operates successfully on roadways which can be built and maintained at a cost much less than that of the railway. It will doubtless aid man in developing the producing power of still other areas now too far from the water's edge to justify their exploitation for agricultural and mining purposes. In the tropics there are millions of square miles of land still undeveloped which are suited to motor transportation; this is true also of the south temperate zones, and likewise of certain sections of the north temperate zones, especially Russia and Manchuria.

In India, Burma and the Federated Malay States, the thousands of light American automobiles used for the transportation, not only of people, but also of freight, illustrate the increasing value of these vehicles as feeders for the railroads and the ocean lines. On the sugar plantations of Java and the rubber, cocoanut and tobacco estates of Sumatra, the commercial automobile is rapidly replacing the slow and clumsy bullock cart.

Every improvement in transportation represents a relative increase in the volume of international trade.

The "Fluidity" of Commerce

The future development of commerce on an international scale depends largely upon its "fluidity," its ability to adapt itself to the changing conditions of world supply and demand. The past few years give ample evidence that world trade possesses just these characteristics.

The example of the United States in relinquishing its leadership in some lines of world trade and readily stepping forward to meet new and sometimes sudden demands upon it, is illuminating. Long recognized as the world's chief producer of wheat, corn, meats, fruits, copper, iron and petroleum, the United States has, nevertheless, within a very recent period, imported large quantities of these articles. In 1915, when our wheat crop, the largest in our history, passed the 1,000,000,000 bushel mark, exceeding that of any other country in the world, we nevertheless imported between 5,000,000 and 6,000,000 bushels of wheat. Although we raise actually two-thirds of the corn of the world, in 1914 we imported over 15,000,000 bushels valued at $10,000,000. Although we produce more fruits than any other country in the world, in 1914 we imported $34,000,000 worth. Although we supply half the copper in the world, our importations in the same year exceeded $50,000,000. Although our production of pig iron is double that of any other country and 40 per cent. of the production of the world, during the last decade we imported over $60,000,000. Although we are surpassed by no other country in our iron and steel manufacturing systems, and despite our exports averaging $1,000,000 every business day of the year, in the last decade our imports of such manufactures exceeded $300,000,000.

Why We Export and Import the Same Classes of Goods

Several reasons may be cited in explanation of these strange countermovements of products. First, the United States has become one of the great markets of the world for these articles. Producers find that they can obtain better prices in our markets than they can at home. Argentina presents one example of this. In 1914, she sent us about 15,000,000 bushels of corn. The corn raised in our country is fed mostly to cattle and hogs for the production of meats; the advance in price of meats results in a corresponding rise in the price of corn so that our corn markets now offer greater attractions and higher prices than those of European countries. Likewise, our iron and steel industries utilize all of the pig iron that we produce even though that is 40 per cent. of the world's output. Our manufacturing establishments near the Atlantic coast find it cheaper to bring pig iron or iron ore from other countries than from the Minnesota mines or from the furnaces on the southern shores of Lake Superior and Michigan.

Second, the very bigness of our industries has given us special facilities for rehandling and remarketing materials. Our huge flour mills at Minneapolis, the greatest flour center of the world, handle large quantities of Canadian wheat. The bigness of our copper industries has given us such excellent smelting facilities that the producers of Japan, Australia and South America send us their raw ores to be smelted. Similarly, the European countries that have copper which has passed the smelting stage, but requires refinement, find it most economical to have the further processes completed in the refineries of the United States which are the greatest in the world.

How We Met the War Demands

Another illustration of the expansive power of commerce and its quick response to the demands of the various nations of the world is seen in our large exports of war materials to Europe in 1914, 1915 and 1916. The United States, a peaceful nation, had not in the past been accustomed to produce large quantities of arms and ammunition; yet our manufacturers met the sudden demand from Europe with amazing promptness. In the calendar year, 1915, we exported "explosives," including cartridges, shells for artillery, gunpowder and glycerine, to a value of over $180,000,000, against less than $6,000,000 in 1913. Motor trucks and other self-propelling vehicles for use in transporting war material and troops increased from less than $2,000,000 worth in 1913, to $60,000,000 in 1915; harness and saddlery from less than $1,000,000 in 1913, to over $18,000,000 in 1915; and boots and shoes for men from $10,000,000 in 1913 to $30,000,000 in 1915.

A still further instance of how our commerce has readily adapted itself to the demands of war time may be seen in the reexporting business. Prior to 1914 most of the merchandise imported for reexportation was handled by Great Britain and Germany. With

Entrepot

the disruption of their commerce, large quantities of such articles were sent to the United States. In the port of New York we have reshipped in 1915 approximately 92,000,000 pounds of coffee of foreign growth and 40,000,000 pounds of cacao, all of it from South and Central America and the West Indian Islands. Foreign merchandise collected by us and redistributed to foreign countries was worth over $60,000,000 against $36,000,000 in the year preceding the war.

The Future of Trade Depends on the Future of Industry

The great industrial systems of the world may be relied upon to compel a continuance of the growth of world trade. By their own activities they multiply commerce. The immense industries of Europe, although some of them have been retarded by the war, may be expected to continue the steady increase in production that marked their activities before the war. It is upon this steady annual increase of capital invested in manufacturing and upon the consequent growth of production that future trade must depend.

In the United States, for example, capital invested in manufacturing has grown from $530,000,000 in 1850 to nearly $19,000,000,000 in 1910, and the value of production from $1,000,000,000 to over $20,000,000,000. The census estimates that the manufacturing establishments of the United States in 1910 added $8,500,000,000 to the value of the materials which they utilized, while in 1850 the value added was less than $500,000,000. This enormous increase illustrates in some degree the additions made to the materials of commerce by the great manufacturing industries of the world.

Even in those sections of the world in which the population is now engaged in the production only of raw materials and foodstuffs we may expect increases in the manufacturing industries. India, for example, through the introduction of railways and manufacturing systems, has enormously increased her international trade, which is now 2½ times as much per capita as that of her densely populated and equally industrious neighbor, China.

Industries in Backward Lands

Practically one-half of the cotton cloths now used in China are manufactured by hand, partly from the cotton grown in that country and partly from imported cotton yarn; but when the people of China, through the development of railways and modern factories, find better employment than manufacturing cotton cloths by hand, the consuming power of that country will be correspondingly multiplied and its imports and exports and exchanges among its own people increased in like degree.

Enormous Industrial Resources as Yet Undeveloped

There is still, even in the most civilized countries, ample room for the expansion of industries, whether they be agricultural, mining or manufacturing. In the United States, for example, where we produce two-thirds of the cotton of the world and where our production has grown from about 8,500,000 bales in 1890 to 16,000,000 in 1914, it is estimated that less than one-quarter of our land capable of producing cotton is now devoted to that purpose. People unacquainted with the subject have expressed fear that our coal supply would soon be exhausted by the production which had jumped from 64,000,000 tons in 1880 to over 500,000,000 tons in 1914. As a matter of fact, we have in all the years of our production utilized less than one per cent. of the coal underlying the surface of the United States.

Aluminum, a very recent commercial product, is perhaps more widely distributed over the world than any other metal. Production has so rapidly increased in recent years that prices have fallen from $10 per pound, a few years ago, to less than 30 cents at the present time. The quantities available for future production are practically inexhaustible.

Not only the expansion, but also the intensification, of production will contribute to the enlargement of commerce. Intensive farming, especially in the crowded countries of Europe, illustrates the point.

More Intense Production Means Greater World Trade

The nitrates of Chile have for many years been distributed to the United States and to the countries of Europe, for use in increasing the producing power of the soils. So, also, have the phosphates and oil cake of the United States. Europe has sent in return certain products of the mines and the chemical works of Germany for use in strengthening our own soils and increasing their power of production.

Very recently came a new development in which man learned to obtain nitrogen from the air through the use of electric power generated by waterfalls, and this class of soil food now produced upon the bleak coast of Norway competes with the nitrates from the arid plains of Chile in feeding the farm lands of Europe and of the United States.

Our own farms have increased their average wheat production per acre about 25 per cent. by this judicious application of soil foods brought from other parts of the world. Their average production per acre is yet only about one-half of that of the lands of England, France and Germany, which had already been tilled for centuries when our own farmers began importing materials for feeding the soil. This process of intensifying production resulted in making the wheat crop of the United States in 1915 the largest ever produced and our contributions of wheat to the world's commerce the largest of many years. At the same time it further increased commerce by bringing into this country in 1914 over $23,000,000 worth of fertilizers.

Speeding up industry, applying scientific methods to factories, replacing slow hand labor by time-saving devices, centralizing and simplifying management—all these factors will, in time, have world-wide adoption and commerce will benefit in proportion.

Each New Factory Adds to Export Resources

New industries coming to the front constantly increase commerce and will continue to do so in the future. Invention, especially in the line of chemistry and mechanics, is annually adding to the volume of world trade. By increasing productiveness, by accelerating transportation and by increasing efficiency of labor and machinery, the inventor is an essential factor in the growth of world commerce. The nitrate industry in Norway, mentioned in a previous paragraph, is a striking example of modern invention.

Recently in mid-Pacific over after-dinner coffee in the smoking room of one of the

22,000-ton Japanese mail steamers, the conversation turned to the rapid development of the Japanese race. All the factors contributing to that growth had been recounted with ardent supporters for each. It was at last noticed that a financier from the Island Empire had quietly joined the group. He was appealed to at once. "What," he was asked, "in your opinion has really been the vital influence behind Japan's development?" There was just a moment's hesitation and then the inscrutable Oriental smile broke over his face as he replied quietly, "The Japanese!"

The Human Element in International Commerce

The most important factor in man's commercial development during the last century has been man. The ambition of the human race is what has sustained the ever-increasing commerce of the world. It is upon the human element also that the future depends. Man now has at his disposal powerful means of transportation propelled by steam, electricity and gasoline. Governments are advancing and guarding the interests of commerce. Capital is ready for investments overseas. Industry is forging ahead in expansion, in intensity of production, and in invention. The nations of the world have demonstrated their ability to adapt themselves to the changing demands of commerce. A century ago, man with an equipment crudely primitive in comparison, launched out upon the remarkable century of commercial advancement outlined above. With the improved facilities of today and with such enormous areas still open to commerce, the future of world trade is bright.

Whether the promise is to be realized or not, depends upon the activity of the man behind the export manager's desk and his helpers.

IV

Our Preparedness for Foreign Trade

WHEN the European war aroused us from the complacency of our domestic prosperity to a realization of our place in the family of nations, we asked ourselves, "What is our preparedness for conquering foreign trade?" It was no new question to the men who had been battling in the world markets with the traders of Europe. To the novice, however, the answer has proved instructive. Two things he has come to realize. One is the industrial strength of his own nation. The other is the magnitude of the task of learning to use that strength in the markets which Europe formerly dominated.

When we compare the United States of 1800 with that of 1916—the country of the post chaise and the sailing ship, with that of the ocean liner, the express train and the wireless—we appreciate not only the rapid growth of the nation but also the wonderful resources upon which it can rely in its battle for supremacy in the world's trade.

A century ago, inland transportation depended upon roads and rivers. A turnpike had been constructed to connect Philadelphia with Pittsburgh. A packet line on the Ohio River consisting of four keel boats propelled by oars and poles, connected Pittsburgh (population 2,000) and Cincinnati (population 1,500). The alluring advertisement announcing the establishment of this line assured prospective patrons that: "No danger need be apprehended from Indians, as every person will be under cover made proof to rifle balls with convenient port-holes for firing out."

Waterways Were the First Trade Arteries

Another packet line operated between Cincinnati and New Orleans, but so difficult was transportation that the cost of carrying a barrel of flour from New Orleans to Cincinnati was $10. The cost of moving merchandise by pack horses from Philadelphia to the nearest point on Lake Erie was $200 per ton.

A little later the possibility of moving freight and people by a "steam wagon" operating on iron rails became apparent. Stephenson, in traveling over the turnpike connecting Philadelphia with Pittsburgh, ventured the opinion that a steam wagon would some day carry passengers and merchandise over that route. His prediction was verified even sooner than he expected.

The Growth of Our Railway Systems

In 1828 two companies were chartered for the construction of railways westward from Philadelphia and Baltimore, and others at New York and Boston soon followed. But they made slow progress, and it was not until 1850 that the first through railway running from the Atlantic to the Great Lakes was opened. It consisted of the Boston & Albany Railroad as far as Albany, and thence several short lines between Albany and Buffalo. In 1851 the New York & Erie Railroad opened a through line from New York to Dunkirk at Lake Erie; in 1852 the Pennsylvania Railroad was opened from Philadelphia to Pittsburgh; in 1853 the Baltimore & Ohio opened a through service between Baltimore and Wheeling, on the Ohio River; and in the same year the union of several short lines along the Hudson River and Erie Canal created the New York Central.

Due to the prosperity of the Middle States, and to the encouragement given by the government to the roads reaching out from the Mississippi Valley toward the Pacific, the railways have experienced a remarkable growth from 1880 to the present day.

RAILROAD MILEAGE IN OPERATION IN U. S. A.

1880	93,267 miles
1890	167,191 miles
1900	198,964 miles
1913	251,984 miles

With this increase in mileage came naturally a proportionate increase in the amount of freight carried—that is, an increase in the goods that entered the nation's trade.

Freight Carried One Mile

1890	77,207,047,298	short tons
1900	141,596,551,161	short tons
1913	301,398,752,108	short tons

With railway business on such a vast scale economies were realized and rates regulated and reduced. Inland shippers, wishing to get their products to the seaboard, now enjoy much cheaper transportation rates than in former years. Charges on wheat moving from Chicago to New York via lake and rail have fallen from 29 cents per bushel in 1868 to 6½ cents in 1914. "All rail" rates on wheat from Chicago to New York, which were 46 cents per bushel in 1866, were 9½ cents in 1914, and were slightly below 8 cents if the wheat were consigned for exportation.

This growth of our railroad traffic has been attended by such an increase in speed and such improvements in roadbed construction, rolling stock and freight-handling machinery that the United States today stands as the leading railway nation of the world.

Not the least among the other factors contributing to our development has been the

The Best Communication Facilities in the World

marvelous improvement in communication. Postal service has been so bettered and expanded that the government's expenditures in 1914 were $284,000,000 as compared with $5,000,000 in 1850. As an example of the increase in telegraph facilities, the Western Union handled approximately 100,000,000 messages in 1913 against less than 6,000,000 in 1867. The recent completion of through telephone communication between New York and San Francisco marks a further step in the remarkable growth of that service from 6,000,000 miles of wire in 1904 to 22,000,000 miles in 1914, which is 60 per cent. of the telephone wires of the world.

In contrast with a century ago, the United States today is a unit, bound together by a close-knit network of railways, canals, navigable rivers and telegraph and telephone wires, all assisting in getting our wares to the seaboard for export. The products of the most remote corners of the 48 states can now be delivered in a few days to an ocean liner for transport to the nations of the earth. In this carrier equipment, surpassing in size and efficiency that of any other country of the world, we have one of the most essential instruments needed by a nation wishing to dispose of her goods in the world's markets.

Our Neglected Foreign Merchant Marine

Quite the opposite has been the history of our foreign merchant marine. Although our nation is second only to Great Britain in its total merchant tonnage, the larger part of that tonnage is employed in domestic trade. On June 30, 1915, the American ships registered for foreign trade numbered only 2,768 with a gross tonnage of 1,813,775. Compare with this our merchant marine for foreign service in 1863. At that time we had 2,026,114 gross tons in our foreign commerce, 212,339 tons in excess of our present volume.

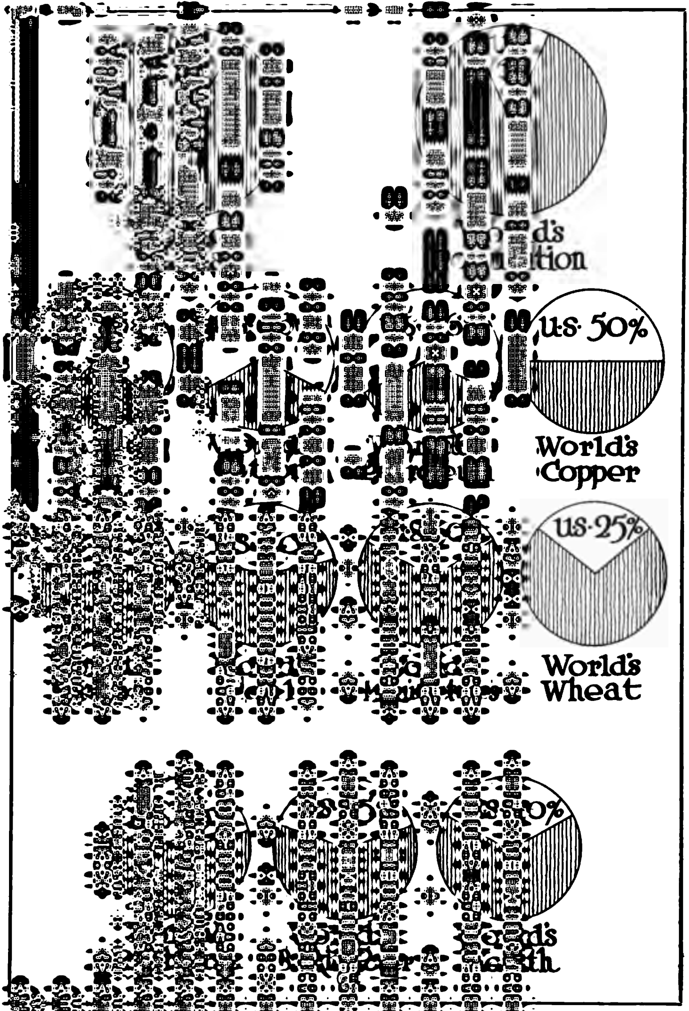
At the time of the Civil War our shipping suffered disaster. Taxation discouraged our ship-builders. Iron vessels displaced the old wooden sailing ships, and in the new industry we were surpassed by the countries of Europe. The higher wage scale for American seamen and the more stringent requirements of our navigation laws helped to drive the American flag out of the ocean carrying trade. Our merchants had to turn to foreign countries for their vessels, both for purchase and for registration. An estimate of total foreign shipping owned by American interests prior to the European war places it at between 1,500,000 and 2,000,000 tons. There is no phase of preparedness for our overseas trade which shows us at so poor an advantage.

The Greatest Producing Nation in the World

Coincident with and contributing to the development of our water and rail transportation and the expansion of our population, has come a growth in domestic industries that is unequalled among the other nations of the world. It is the outstanding fact about our resources that the United States today is the greatest producing nation of the world.

It has a land area of 3,500,000 square miles out of the world's total land area of 50,000,000 square miles exclusive of the polar regions. It has 100,000,000 people out of the world's population of 1,650,000,000. Yet with about seven per cent. of the land area and six per cent. of the population of the world we produce about 75 per cent. of the corn of the world, 66 per cent. of its cotton, 66 per cent. of its petroleum, 50 per cent of its copper, 40 per cent. of its iron, 40 per cent. of its coal, 30 per cent. of its manufactures and 25 per cent. of its wheat. To handle this vast production and the commerce which grows out of it, we have approximately 40 per cent. of the world's railways, 30 per cent. of its wealth and 35 per cent. of its banking power.

With huge additions each year to the quantities of crude products available for manufacture and with excellent facilities for moving those products to localities suitable for the



[illegible] FRUITFULNESS OF FOREIGN TRADE

[illegible] of the world's products, can produce [illegible]

erection of mills, manufacturing in the United States naturally has forged ahead rapidly.

The Rapid Rise of Our Manufacturing

The growth of the cotton industry will illustrate this. Each year has witnessed a greater number of spindles operated in our cotton mills.

GROWTH OF OUR COTTON INDUSTRY

Spindles in Operation	Value of Cotton Manufactures
1850— 3,998,000	$61,869,184
1880—10,653,000	192,090,110
1900—19,472,000	339,200,320
1913—31,520,000	628,391,813

Similar rapid increases in the producing powers of other great industries have added to the vast sum total of our manufactures, for example, of wool, silk and steel.

GROWTH OF OTHER INDUSTRIES

Census	Wool	Silk	Iron and Steel
1870	$199,257,262	$12,210,662	$ 207,208,696
1880	238,085,686	41,033,045	296,557,685
1900	296,990,484	107,256,258	803,968,273
1910	507,166,710	196,911,677	1,377,151,817

The growth of the great rubber industries in the United States made importations of crude rubber leap from 9,624,098 pounds in 1870 to 131,995,742 pounds in 1914.

Within three score years and ten—within the memory of a great many men today—the country has developed into a leader in the world's industry. What that growth has meant to the nation is seen in the figures of the wages paid to our laboring classes and in the increment in value that has been added to the materials manufactured.

Manufacturing Industries of U. S. A.

Census	Wage Earners	Wages	Value Added
1850	957,059	$ 236,755,464	$ 463,982,794
1880	2,732,595	947,953,795	1,972,755,642
1900	4,712,763	2,008,361,119	4,831,075,210
1910	6,615,046	3,427,037,884	8,529,260,992

From the surplus production of our great industries we have been supplying, in greater volume each year, the needs of the outside world. It is safe to say that there are very few domestic industries, however, now operating with 100 per cent. efficiency. If the 300,000 establishments in the United States were to bring their production up to its maximum and devote the increased volume of output to foreign trade, the position of the United States as an exporting nation would be unassailable. While this is theoretical, it indicates the resources with which our industries provide us in our fight for the world's trade.

All these great developments in industry have added enormously to the wealth of the country.

FINANCIAL GROWTH OF U. S. A.

Census	Total Wealth	Per Capita
1850	$ 7,135,780,000	$ 307.69
1880	43,642,000,000	870.20
1900	88,517,307,000	1,164.79
1912	187,739,071,090	1,965.00

Banking Power

1840	$ 440,000,000
1870	2,140,000,000
1890	5,010,000,000
1908	17,500,000,000
1914	24,300,000,000

Our Wealth and Banking Power

Since the outbreak of the European War, these huge aggregates of wealth and banking power have been greatly increased by the favorable balance of our foreign trade and by the absorption in our market of American securities formerly held by the warring countries. The United States is becoming a great capitalist nation, lending to the countries of the world. This judicious investment of capital abroad, in still greater volume, in the future will return to our manufacturers a fuller share of the world's trade.

V

The Trend Toward Manufacturing

IT was inevitable that the development of our production should be reflected in the character of the goods we exported. The products of which we had a surplus at home were those which we could spare to other countries. As production varied, exports followed. Of the many changes that are discernible in the export records of the past century, the most important is the steady displacement of crude materials and foodstuffs by manufactures. To the factory owner the nation is looking more and more each year for an increasing share of the goods to be sold to the outside world.

In classifying our exports, the Government recognizes five great groups:

1. Raw materials for manufacturing.
2. Foodstuffs, crude.
3. Foodstuffs, manufactured.
4. Manufactures for further use in manufacturing.
5. Manufactures ready for consumption.

A survey of our agricultural and industrial growth and its relation to the development of other nations reveals the causes underlying the greater significance of the last two classes during recent years.

The Era of Foodstuff Production

In the middle of the nineteenth century, following the opening of the central and western areas to agriculture and stock raising, the United States directed its energies toward the producing of foodstuffs. In the upper Mississippi Valley the great bonanza farms sprang up with tens of thousands of acres and thousands of employees under a single management. Large capital was at their disposal for the purchase of the best equipment then obtainable. Similarly along the foot of the Rockies, where the rainfall was not sufficient to justify wheat growing, the land was devoted to grazing under similar methods. The United States became the largest meat supplying country of the world.

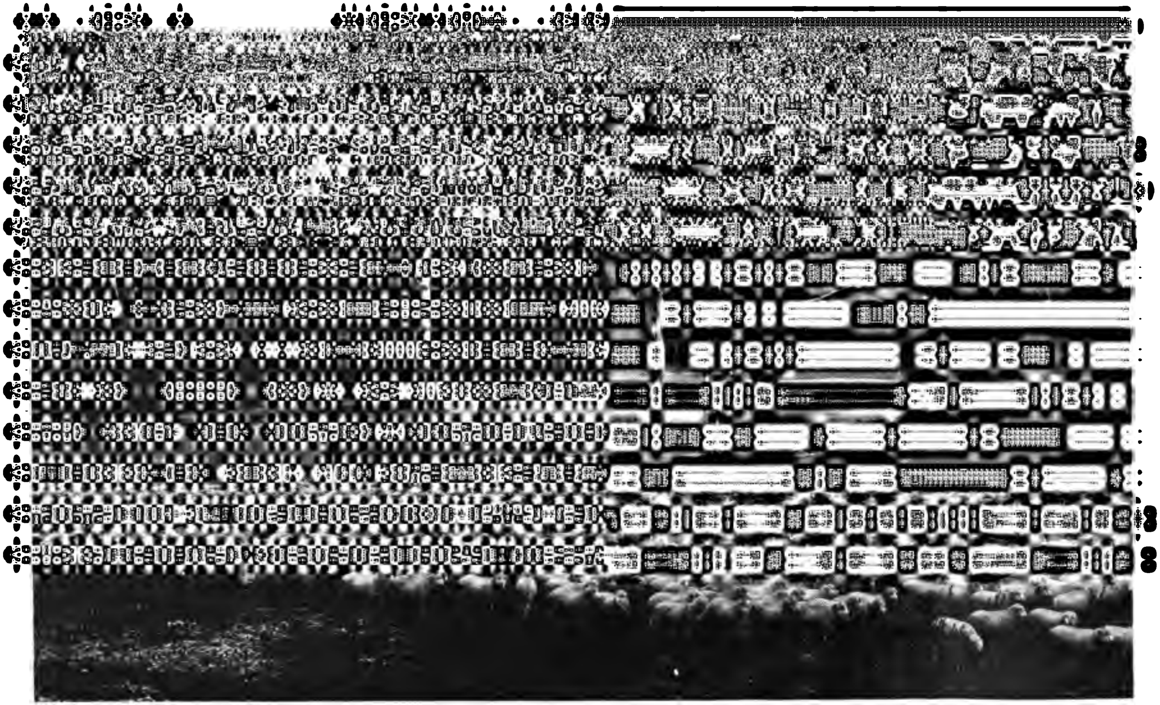
Even the smaller farms, those of one-quarter or one-half of a section of land, in the Middle States developed a vast grain production utilized chiefly for "finishing off" the beef animals from the great ranges and for feeding the millions of swine of which the United States had half the world's supply. Similarly we began to tap the great resources of raw materials for which foreign nations had a demand. It was from the surplus of those great productions of foodstuffs and raw materials that the bulk of our exports came.

Meantime, however, a great change had

occurred in the producing and consuming powers of the people of this country. With the growth in population from 40,000,000 in 1872 to 80,000,000 in 1903, the people demanded increased opportunities for making homes of their own on the great areas devoted to agriculture. When the supply of public lands available under the Homestead Law became scarce, there arose a demand that the farms and cattle ranges be broken up. The ensuing years witnessed a gradual disintegration of many of these large holdings. Owing to the doubling of population, the reduction of agricultural areas and the change in methods of producing grains, the relative quantity of foodstuffs, especially meat, available for exportation, began to diminish. While the constantly advancing price of meats reduced the speed of decline in the value of the quantities exported, the total value of meat products in our foreign trade fell rapidly, and was in the fiscal year 1914 only $143,000,000 against $202,000,000 in 1906.

More Mouths to Feed, Less Food to Export

Great manufacturing industries had sprung up, and the people were devoting their efforts to manufacturing, transportation and similar industries. With more mouths to feed at home, with more people living in cities and towns, therefore not producing agricultural



A SHEEP RANCH IN NEW SOUTH WALES, AUSTRALIA

Through the use of the refrigerating system the meats of Australia and Argentina can be placed on the markets of every nation, and have been displacing American meats in foreign countries.

products, and with the great ranges being divided up, the foodstuff groups gradually formed a smaller and smaller proportion of our total foreign trade.

Less Developed Countries Displace Us as Food Producers

Although reductions in foodstuff exports were primarily from these causes, changed economic conditions in other countries also exerted a great influence. During the period in which our beef production and exports reached their highest points, Argentina and Australia were developing a great cattle and sheep industry. Science was also perfecting the refrigerating system so that the meats of these less developed countries might be placed more cheaply on the markets of the world.

Similar conditions affected our exports of other foodstuffs, especially wheat and corn. While our increasing population was consuming greater percentages of our annual production, the more sparsely populated countries were rising to rival us as sources of the world's grain supply. While our exports of wheat were falling from $191,000,000 worth in 1880, to $113,000,000 in 1902, and $28,000,000 in 1912, other sections of the world, such as Argentina and Canada, were making up the deficit in the world's supply. Although our exports fell off during these years, the world's wheat crop has steadily increased, and our share in that production has not materially changed. It was the quantity which we had left over after home demand had been satisfied, and which was available for sale abroad, that declined. The falling-off was increasing rapidly until checked in 1914-1915, when our wheat crop reached the 1,000,000,000-bushel mark.

A similar decline has been taking place in the exports of corn. From 213,000,000 bushels in 1900, they dropped to 66,000,000 in 1911, and 11,000,000 in 1914. Although we have never been very large exporters of this product in proportion to the quantity we produced, the figures given show that we have consumed more and more each year ourselves. At the same time Argentina was rapidly developing the production and exportation of corn, and today her exports are far in excess of those of the United States, although her total production is but one-tenth that of our country.

Cotton is, in fact, about the only agricultural product which has shown an increase in exports in recent years. The quantity sent out of the country has grown from an average of less than 2,000,000,000 pounds in 1886 to

3,500,000,000 in 1895, 4,000,000,000 in 1905, and 5,500,000,000 in 1912, while the value of the cotton exports which averaged less than $200,000,000 prior to 1885 had grown to $400,000,000 in 1906, and to $610,000,000 in 1914.

Many other agricultural products of importance, barley, dairy products, hay, live animals, hides and skins and flaxseed show a steady decline in quantities exported.

How Manufactures Are Coming to the Front

In proportion as the share of raw materials and foodstuffs in our export list has declined, that of manufactured articles—the balance of the exports—has increased. Although not yet forming the bulk of our outward overseas trade, factory products bid fair to attain that distinction in the near future. The steady growth from 15 per cent. in 1880 to 36 per cent. in 1900, 45 per cent. in 1910, and 49 per cent. in 1913 indicate—when viewed in connection with the assured expansion of our industries—that we shall soon rank in the markets of the world as a manufacturing rather than as an agricultural nation.

The vital significance of this fact to our manufacturers is greatly emphasized when we consider these increasing percentages in connection with the rapidly enlarging total value of our export trade. From $824,000,000 in 1880, the value of our domestic products exported has risen to $2,429,000,000 in 1913. The manufacturer has been getting a larger share of a much larger total trade. What this means in actual figures is shown by the records:

THE VALUE OF OUR MANUFACTURED EXPORTS COMPARED WITH TOTAL EXPORTS

	Manufactures	Total Exports	Per Cent.
1880	$ 121,818,298	$ 823,946,353	15
1890	178,982,042	845,293,828	21
1900	485,022,156	1,370,763,571	36
1910	766,981,245	1,710,083,998	45
1913	1,185,104,309	2,428,500,358	49

Although the increase in prices during the past two decades has been responsible to some degree for these greater values, the larger part of the increment is directly attributable to the greater volume of manufactured merchandise sent to foreign countries.

Relative Changes in the Five Groups

A comparison by groups of the domestic exports for the year 1880, when agricultural products formed the highest percentage, with those of 1913, the last normal year, brings out some very interesting facts.

The raw material exported for use in manufacturing is chiefly cotton. With our great increase in cotton production and the dependence of the world upon the United States for its supply, the percentage of this group has

DOMESTIC MERCHANDISE EXPORTED FROM U. S. A.

	1880 Value	Per Cent. of Total	1913 Value	Per Cent. of Total.
Raw material for manufacturing	$238,787,934	28.98	$ 731,758,513	30.13
Foodstuffs, crude	266,108,950	32.30	181,907,266	7.49
Foodstuffs, manufactured	193,352,723	23.47	321,204,373	13.23
Manufactures for further use in manufacturing	29,044,159	3.52	408,806,949	16.83
Manufactures ready for consumption	92,774,139	11.26	776,297,360	31.97
Miscellaneous	3,878,448	.47	8,531,897	.35
Total	$823,946,353	100.00	$2,428,506,358	100.00

remained from year to year practically the same.

Crude foodstuffs consist principally of wheat, corn, oats and live animals for food. Foodstuffs partly or wholly manufactured consist chiefly of flour, meats, dairy products, dried fruits, canned food and vegetables. In these two groups the great decline has occurred—from 55.77 per cent. to 20.72 per cent. of our total domestic exports.

Manufactures for further use in manufacturing include, among other things, pig iron, steel bars, copper and leather. Manufactures ready for consumption cover steel rails, locomotives, agricultural machinery, railway cars, clothing, boots and shoes, sewing machines, and thousands of other finished articles. In these two lines there has been a jump from 14.78 per cent. in 1880 to 48.80 per cent. in 1913.

Comparison by Values

It must not be understood from the above discussions of the share which the three great groups, raw materials, foodstuffs and manufactures, form respectively of our export trade, that there has been a serious decline in the value of foodstuffs exported. The total value of foodstuffs exported in 1880 was $459,000,000, and in 1913, $503,000,000. Raw materials exported increased in value from $239,-

000,000 in 1880 to $732,000,000 in 1913, while manufactures, including both groups, increased from $122,000,000 to $1,185,000,000. To put it in a single sentence,—foodstuffs exported have not materially changed in the value of their total since 1880, raw materials exported have trebled, while manufactures exported are ten times as great. The rise in prices accounts for the fact that the value of foodstuffs is practically the same despite the decrease in volume exported, and this price element must also be taken into consideration in comparing the total values of the other classes.

Manufactures That Have Had Phenomenal Growth

Having found that the wonderful growth of our export trade occurs chiefly in manufactures, we naturally desire to learn what particular class of articles forms this group. An increase of nearly 900 per cent. exports in a single group of articles during so short a period as from 1880 to the present time is of sufficient importance to justify a closer examination to try to determine what particular articles are responsible for this phenomenal gain in the export trade.

The principal articles forming the manufactures group are agricultural implements, cars and carriages, leather and leather manufactures, cotton goods, chemicals, oils, copper, wood, paper and paper manufactures, and the multifarious manufactures of iron and steel, including in this term, machinery.

All of these groups of manufactures show increases in exports, but some more rapid ones than others. A large proportion of the increase in most cases has occurred in the present century, for the total value of the manufactures exported grew from $485,000,000 in 1900 to $1,185,000,000 in 1913, an increase of about 150 per cent. in a period of 13 years. Agricultural implements, for example, grew from $16,000,000 in the value exported in 1900 to $41,000,000 in 1913; cars and carriages, from $10,000,000 to $55,000,000; leather manufactures, from $27,000,000 to $64,000,000; mineral oils, from $68,000,000 to $130,000,000; copper, from $58,000,000 to $140,000,000; wood manufactures, from $46,000,000 to $111,000,000; cotton manufactures, from $24,000,000 to $54,000,000, and manufactures of iron and steel as a whole, from $122,000,000 to $305,000,000. Sub-dividing the iron and steel group we find that machinery alone increased from $55,000,000 in 1900 to $131,000,000 in 1913; structural iron and steel, from less than $3,000,000 to $16,000,000; pipes and fittings, from $7,000,000 to $17,000,000, while tin-plate increased from less than $250,000 to nearly $6,000,000.

Cotton Goods the Laggard

In view of the fact that the United States produces two-thirds of the world's cotton crop, and turns out from her factories over $600,000,000 worth of cotton manufactures each year, the growth in exports of cotton goods has been surprisingly slow. Manufactured exports as a class increased 150 per cent. in 13 years. Cotton goods, however, show a growth of only 125 per cent., despite the fact that the demand has been increasing rapidly, and our cotton production and cotton industries have been expanding. This backwardness of cotton goods as an export is due to the fact that American manufacturers, as a rule, have made little effort to adapt their products to the peculiar wants of the great cotton importing sections of the world—the Orient, the tropics and the south temperate zone.

How Our Imports Have Changed

The changes in the import trade of the United States have been as interesting and suggestive as those of the exports already discussed. The growth in imports has been less rapid than that of exports. This is quite natural in view of the fact that the United States has so largely increased her production, especially in manufactures, that her people are less dependent than formerly upon outside countries, except in certain lines of foodstuffs and raw

MERCHANDISE IMPORTED INTO U. S. A.

	1880 Value	Per Cent. of Total	1913 Value	Per Cent. of Total
Raw material for manufacturing	$131,861,617	19.74	$ 635,210,201	35.04
Foodstuffs, crude	100,297,040	15.01	211,746,500	11.68
Foodstuffs, manufactured	118,125,216	17.69	194,243,220	10.72
Manufactures for further use in manufacturing	110,779,516	16.59	349,401,928	19.27
Manufactures ready for consumption	196,587,405	29.43	408,178,704	22.51
Miscellaneous	10,303,952	1.54	14,227,681	.78
Total	$667,954,746	100.00	$1,813,008,234	100.00

materials for use in manufacturing, which are not produced at home. For example, we have increased enormously our importation of coffee and cacao, which we do not produce. We have added to our importation of sugar because, until very recently, little effort has been made to develop the production of beet sugar in our temperate zone area, although it has been quite apparent for a score of years that beet sugar could be produced here in unlimited quantities. We import hemp, jute and sisal from the tropics for use in manufacturing. We import large quantities of India rubber because it is a distinctly tropical product which we cannot grow upon our own soil. We import largely of hides and skins, because the domestic supply has been somewhat depleted with the reduction in the number of cattle slaughtered for food, but more especially because of the greater requirements of our increasing population for the articles produced from leather.

As a consequence of these peculiarities of our import trade, crude materials imported for use in manufacturing increased from $132,000,000 in 1880 to $635,000,000 in 1913, while foodstuffs, including sugar, coffee, tea, cacao and tropical fruits rose from $218,000,000 to $406,000,000. These classes now comprise nearly 60 per cent. of our total imports.

Manufactures for further use in manufacturing—including pig tin, of which we produce none; copper, largely sent to us for refining; dyes and dyestuffs, of which Germany has had a monopoly; uncut diamonds; and lumber and wood pulp from the forests of Canada—show a marked increase in imports, from $111,000,000 in 1880 to $349,000,000 in 1913. The importance of our manufacturing industries in our import trade is further emphasized when we realize that the raw materials, such as fibers, raw silk, India rubber, etc., wool, hides, and certain grades of cotton form a very appreciable part of the total trade. Articles fully manufactured and ready for consumption evidence a smaller growth proportionately, from $197,000,000 in 1880 to $408,000,000 in 1913.

In brief, while foodstuffs and manufactured articles imported have only doubled during the 33 years, manufactures for further use in manufacturing have trebled, and crude materials for manufacturing have nearly quintupled. The demands of our manufacturing industries have been the principal cause of this growth of our import trade.

VI

Our New Trade Relations

TO what countries has the increase in our export trade gone? What have been the deciding factors in directing the growing streams of products that have left our shores? A survey of the world distribution of our new business will clarify our ideas and place the correct emphasis on the world trade forces that have recently been at work.

WHERE OUR EXPORTS GO.

	1880	1913	Percentage of growth
Europe	$719,000,000	$1,479,000,000	105.7
N. America..	69,000,000	617,000,000	794.2
S. America...	23,000,000	146,000,000	534.8
Asia	12,000,000	115,000,000	858.3
Oceania	7,000,000	79,000,000	1,028.6
Africa	5,000,000	29,000,000	480.0

Our first glance at the statistics, centers on the huge volume of our trade with Europe as compared with other continents. In 1913 Europe purchased 60 per cent. of our total export trade. But it is of vital importance to keep in mind that 65 per cent. of that European trade consisted of raw materials and foodstuffs.

When we compare each continent's trade with us in 1880, with its increased trade in 1913, we find that Europe is the last in the list as regards the rate of growth.

Non-Manufacturing Countries Our New Customers

Her purchases in the United States have only doubled, whereas those of North America were nearly nine times as much, of South America over six times as much, of Asia nearly ten times, of Africa six times, and of Oceania over eleven times. The rise of the non-European nations as new customers of the United States has been much more rapid than that of the older countries of Europe.

The reasons for this change are to be found in the development in the character of our exports. We have seen how manufactures have come to the fore in our outward overseas trade, comprising 49 per cent. of our exports in 1913, as compared with but 15 per cent. in 1880. Europe is itself so great a manufacturing section that it has comparatively little need of our manufactured products. It wants foodstuffs when, unfortunately, our supply, in excess of our own requirements, has distinctly declined. True, it wants manufacturing materials and gets large quantities in the form, for instance, of raw cotton and copper and pig iron. Due to our unique position in the petroleum industry, Europe calls on us for refined mineral oil and lubricating oils, which rank as manufactured goods. But for the bulk of manufactures, especially those fully finished, her demand is small in comparison with her population and wealth. It is not surprising, therefore, to find that the share which Europe takes of our exports has fallen from 86 per cent. in 1880 to 60 per cent. in 1913.

The great manufacturing countries of the world are the nations of Europe and the United States. The other sections of the world which have risen in importance as customers, are non-manufacturing. It is true that Canada has materially increased her manufactures in recent years, but a large proportion of the finished goods that her people use must still be imported. Central and South America and Africa have very little manufacturing. Oceania is still predominantly agricultural; and Asia, also, except for Japan with its recently developed industries.

There are thus two distinct markets for American goods, one manufacturing and the other non-manufacturing. In view of the gains that manufactures have made in our exports, we can understand why it is that Europe has, for the time at least, yielded place to the less-developed nations of the world in the eyes of our manufacturers who form the great mass of our exporters. In the offices of the great corporations controlling our resources of raw products and foodstuffs, however, we can rest assured that the importance of Europe as a market is not overlooked.

Increase in Our Imports from non-European Nations

Turning to the sections of the world from which we draw our imports, we again find that the growth of our manufactures has affected our trade currents. The bulk of our import trade is also with non-European and non-manufacturing countries of the world. India rubber from South America and the plantations of the Orient, raw silk from China and Japan, pig tin from the Malay Peninsula and Bolivia, hemp from the Philippines, jute from India and sisal from Mexico, among our principal imports, are examples of how our manufacturing needs are met by the less-developed nations of the earth. From Australia, Argentina and China, as well as some parts of Europe, especially the agricultural sections of Russia, we get about half our wool supply; certain high grades of cotton for use in conjunction with our own product come from Egypt; and hides and skins, to a value of $100,000,000 a year, are imported from non-European nations, chiefly South and Central America, Australia, China, India, Turkey in Asia and northern Africa.

For certain foodstuffs we are also compelled to call upon foreign countries. Most of the $100,000,000 worth of sugar imported comes from Cuba; the larger part of the coffee of similar value comes from Brazil. Cacao, of which our consumption is increasing rapidly, comes from South America, the West Indies, and the west coast of Africa. Tea is supplied by China and Japan, with smaller quantities from India; and tobacco is received chiefly from Cuba, Asiatic Turkey and the Dutch East Indies.

WHERE OUR IMPORTS COME FROM

	1880	1913	Percentage of growth
Europe	$371,000,000	$893,000,000	140.7
N. America ...	130,000,000	362,000,000	178.5
S. America ...	82,000,000	218,000,000	165.9
Asia	67,000,000	276,000,000	311.9
Africa	4,000,000	26,000,000	550.0
Oceania	14,000,000	80,000,000	471.4

In 1880 Hawaiian trade was included in the figures for Oceania, and in the above figures for 1913, they have also been included in the Oceania totals.

With the bulk of the articles which we import for food and for manufacturing purposes coming from the countries outside Europe, it is not surprising to find that our imports from that continent have increased but 140.7 per cent. since 1880, while those from the remainder of the world have increased 223.9 per cent.

The change in the import movement, when considered by countries, is not as sharply defined as in the export movement. We have always required, as we now do, the coffee, sugar and cacao of the tropics, and have always purchased certain manufactures from Europe. That there has been a distinct effect, however, is shown by the fact that our imports from that continent dropped from 56 per cent. in 1880 to 49 per cent. in 1913, with a corresponding increase in the imports from the other outside nations of the world.

During more recent years this tendency in the rates of our importations from the various countries has been noticeably stronger. From 1890 to 1914, by way of illustration, while imports from Europe were only doubling, those from North and South America trebled, and those from Asia and Africa quadrupled.

Industrial Growth Affecting Our Imports

The fact that our imports from non-European countries have shown much larger percentages of gain than those from Europe, is easily accounted for. The period since 1880, as we have outlined in a previous chapter, witnessed the great development of our manufacturing industries. It was natural that while manufacturers were trebling their output in the United States, the imports of manufacturing materials should have grown rapidly [illegible] have [illegible]

[illegible] of [illegible]

[illegible] it was [illegible] should [illegible] [illegible] than [illegible] the [illegible] from [illegible]

[illegible] produc- [illegible] [illegible] and has [illegible] [illegible] manufactures, [illegible] and of [illegible]

[illegible] with [illegible] some [illegible] surprising that our exports to Japan should have increased 140 per cent. from 1902 to 1914, while those to China made no increase. The explanation lies principally in the fact that Japan has been advancing rapidly in her industries during this period and has bought largely of machinery, railroad material and raw cotton for manufacturing from the United States. China has advanced less rapidly in her imports, and a large part of her requirements have been supplied by Japan, which has, meantime developed a great manufacturing industry. In the early part of the present century, 1900 to 1905, China was buying large quantities of merchandise, especially cotton cloths, from the United States. Our heavy cottons, made for our temperate zone, were well adapted to the needs of the people of north China, also a temperate zone country. In that same period, however, Japan developed a cotton manufacturing industry. Her manufacturers were acquainted with the local fashions and requirements of China, lying just alongside, and could, therefore, offer goods in a more acceptable form than those made in the United States. They sold them through men speaking the Chinese language, and thus rapidly took over to their own mills a large proportion of the cotton-

China, India and Brazil Exceptions in Our Export Trade goods trade of northern China which the United States had formerly enjoyed.

In India we find an apparently curious situation, in the fact that that country from which we import over $70,000,000 worth of merchandise a year takes only about $15,000,000 from the United States, although her imports are chiefly manufactures for which we are now desiring to find a market. The explanation of this, however, lies largely in the fact that India is a colony of Great Britain, and much of the trade is in the hands of Englishmen and English companies.

Brazil presents somewhat similar conditions in its trade with the United States, but for different reasons. We buy from Brazil over $100,000,000 worth of merchandise per annum, and sell her merchandise amounting to only $35,000,000 a year. The reason that our sales to Brazil are so much out of proportion to our purchases is partly that she finds it more convenient to buy her manufactures from Europe than from the United States because of better steamship facilities. Due to longer credits given by European merchants to the Brazilians, and to the demands of large South American enterprises financed and operated by Europeans, Brazil's trade has tended toward Europe.

The forces underlying world trade have

been operating year by year to change our foreign trade to the benefit of our manufacturers. The new markets we are reaching, the new imports we are receiving, all work together to forward the interests of the factory owner. To the manufacturers who have pioneered our overseas business, must be given great credit for the work they have done. At the disposal of the factory owner who has not yet ventured out into foreign fields is the hard-won experience that these men have gathered.

VII

Fighting for the World's Trade

IN the fall of 1914, previous to the outbreak of the European War, the struggle for the ascendancy in world commerce lay between three nations—Great Britain, Germany and the United States. Of the three, Germany was setting the pace. England, intrenched behind a world system of commerce, loosely organized but supported by control of the seas and by strategically placed colonies, was finding in Germany a formidable competitor. The systematic and painstaking trade campaign laid out by the Teutonic empire was challenging British supremacy in all the markets of the earth. The United States, relying for half her exports on her natural resources of foodstuffs and raw materials, had not felt as keenly as the other two the intensity of world competition in the manufactures trade. In this struggle what has been our part, what have we achieved, what have been the forces hindering or helping us?

In a sentence:—We have kept pace with the world, but no more.

Wonderful as has been the growth of our commerce in recent years, we find from statistics that we have done no more than keep up with the other competing countries, indeed with the world at large. This is especially true with reference to the years 1900 to 1913. In that short period of 13 years the international trade of the world actually doubled in value. The total exports plus the total imports of all countries aggregated, in 1900, $20,000,000,000, and in 1913, $40,000,000,000, an increase of 100 per cent. Our total foreign commerce in 1900 was about $2,244,000,000 and in 1913 about $4,279,000,000—a gain of but 91 per cent.

Pace-keepers Not Pace-makers

In gauging our progressiveness as world traders, however, we turn to our export records—rather than to those of our total foreign trade—as a criterion. Even here we find that the pace set by other countries is fully as rapid as our own. A study of the accompanying table will show how our progress has been practically the same as that of the United Kingdom, more than that of France, but considerably below that of Germany during the years from 1900 to 1913. Netherlands, Russia, India, Canada, Argentina and Japan—though their individual shares of the world's trade have been smaller—have been developing their exports at a rate, in some instances, double our own.

Export Trade of Twenty-Five Principal Countries of the World in 1900 and 1913 (Merchandise only).

	Domestic Exports		Increase in Exports
	1900 Dollars	1913 Dollars	
Argentina	149,189,000	466,582,000	212%
Australia	153,245,000	365,426,000	138%
Austria Hungary	394,440,000	562,247,000	42%
Belgium	371,117,000	717,152,000	93%
Brazil	182,375,000	315,586,000	73%
Canada	148,008,000	355,755,000	140%
Chile	60,703,000	144,653,000	138%
China	117,499,000	294,010,000	150%
Denmark	75,553,000	170,812,000	127%
Egypt	82,877,000	156,506,000	88%
France	792,979,000	1,326,950,000	67%
Germany	1,097,509,000	2,403,311,000	118%
India	353,903,000	798,814,000	125%
Italy	258,281,000	483,255,000	87%
Japan	101,806,000	314,965,000	209%
Mexico	37,303,000	129,971,000	248%
Netherlands	680,009,000	1,239,360,000	82%
Norway	43,616,000	102,084,000	134%
Russia	368,955,000	782,869,000	112%
Spain	115,179,000	194,281,000	68%
Sweden	104,872,000	219,049,000	108%
Switzerland	160,148,000	265,645,000	65%
Turkey	68,821,000	134,009,000	94%
United Kingdom	1,417,086,000	2,556,106,000	80%
United States	1,370,764,000	2,428,506,000	77%
Total	8,706,237,000	16,927,904,000	

This list of the exports of 25 principal countries of the world shows a total in 1900 of $8,706,237,000 against $16,927,904,000 in 1913, a gain of 83 per cent. or six per cent. greater than our own export increase.

The Change from Foodstuffs to Manufactures Retarded Our Export Growth

It is to be said to our credit, however, that our rapid growth has been made despite the changing character of our exports. In 1900, 40 per cent. of our exports were foodstuffs; in 1913, but 21 per cent. Meantime manufactures were displacing foodstuffs, having risen from 36 per cent. to 49 per cent. Raw materials increased six per cent.

This change retarded our progress as an exporting nation. Witness the decade 1890-1900, when foodstuffs were the main item in our export list and our outward volume of products showed an increase of over 50 per cent., while that of other principal countries grew only 25 per cent.

Long experience in pushing manufactures in foreign markets, cheaper labor for use in the manufacturing industries, and control of business in many foreign countries through established relations and invested capital, all combined to give the European nations a big advantage over our own exporters, many of whom were just beginning their foreign campaigns. Foodstuffs and cotton sell themselves, and our progress was rapid so long as we had increasing quantities to export. When the supply began to decrease, we had to fill the vacancy with manufactured products; and the fact that our growth during this period of transition is comparable to that of the older manufacturing nations of Europe, indicates plenty of initiative on the part of our exporting manufacturers.

Exports of Manufactures and Slow Expansion

With these facts in mind, it is of interest to look more deeply into the nature of the products sold to the world by the leaders in export expansion. Great Britain, Germany and France are in the order named the chief commercial countries of Europe. Great Britain's total trade is about $6,000,000,000 a year; that of Germany approximately $5,000,000,000, and that of France about $3,000,000,000. In the case of Great Britain, Germany and France, as well as Belgium, manufactures form approximately 80 per cent. of the total exports. Likewise, France and the Netherlands, excluding their rehandling of tropical goods, export a much larger percentage of finished goods than of foodstuffs or raw materials.

In the case of Russia—as well as Norway and Sweden—with large productions from agricultural holdings, forests and mines, the percentage which manufactures form of the total exports is small. From Australia, Canada, and Argentina come vast quantities of food products, while manufactures form a small part of the total outward trade.

It is among these producers of raw materials and foodstuffs that we find the phenomenal rates of increase for the period 1900-1913. They were exporting goods for which there was already a demand—they did not have to seek a market. Their success as exporting nations is largely to be credited to the buyers in other nations rather than to the sellers in their own.

With the great industrial nations—especially Great Britain, the United States, Germany and France—the case is reversed. The seller has had to seek the buyer, and in consequence the relatively smaller rate of growth represents an immensely greater expenditure of effort. It is among these exporters of finished goods —whose main task is the winning and the retaining of customers—that the United States must rank in the future.

It is likewise among the non-manufacturing nations that the United States must look for new markets in which to dispose of her surplus production. It is also from them that she must purchase the foodstuffs and manufacturing materials that she needs.

Europe's Weapons in Trade Expansion

Having attained a place among the three great exporters of manufactures, we should consider what trade forces, if any, have been employed by our competitors to greater advantage and benefit than by ourselves. By the experiences of the nations of Europe we can profit in bidding for a greater share of world trade. England, with her ships in every port of the world, has utilized transportation facilities, more than any other country, in the expansion of her commerce. England and Germany have both been active for years investing money from the home countries in foreign lands, with a resultant increase in demands for the goods of the investing nation. It is well known, for example, that the railroads and mines in South America which are financed by British capital habitually place their orders in the British Isles. In utilizing these two instruments of trade promotion the United States, in comparison, has been deficient.

In Germany the promotion of overseas trade has been a direct interest of the political forces of the government. Through subsidies, public commercial schools, exporting combinations, preferential rates on the railroads and ocean liners, and through actual political influence in the markets of the world, all the European powers, but in particular Germany, have been systematically aiding their traders. The great merchant fleets of the European powers have been regularly aided by grants from the governments.

How Europe Assisted Her Merchants

In the recent steps of our own government—the extending of the work of the Bureau of Foreign and Domestic Commerce, the appointment of commercial attachés, the furtherance of friendly relations with the South American republics—we see promise that the American exporter also will have stronger backing. At a recent lecture in New York a prominent banker remarked that the success of American trade abroad depends upon the closest harmony and cooperation between business interests and the powers in the Capitol at Washington. There is no doubt that the traders of Europe owe much of their success to assistance of just this sort.

The stimulus given a nation's trade by colonization has been enumerated among the important factors affecting world commerce. When we compare the vast colonial empires of the nations of Europe with our own foreign territory, we discover one advantage which it is difficult for the United States to overcome.

Colonies and Their Part in the World Trade Battle

Great Britain with nearly 2,000,000 square miles of territory in India and the Far East, with nearly 3,500,000 square miles in Africa, not to mention her holdings in Australasia and the Americas, derives a trade about equally divided between imports and exports, of $2,000,000,000 a year from her overseas dominions and dependencies. The Netherlands, with colonial possessions of over 1,000,000 square miles—80 times her own size—has a trade of over $260,000,000 with her dependencies.

France, with more than 4,750,000 square miles of colonial area, mostly in Africa, is rapidly increasing her commerce with her dependent peoples by systematic development of their producing possibilities. Germany entered the colonial field at a more recent date and her possessions, whose fate now depends on the outcome of the war, have a comparatively smaller consuming and producing power owing to their situation and climate. Belgium, Italy, Portugal, Spain and Denmark also draw large proportions of their trade from their overseas possessions.

The United States has now an annual trade of about $250,000,000 with her non-contiguous possessions. Over 80 per cent. of the merchandise purchased by Alaska, Hawaii and

Porto Rico is produced in the United States. For the Philippines the proportion is nearer 50 per cent. The exports of these countries come to the United States in about like ratio. Our territorial possessions, including Alaska, are somewhat over 716,000 square miles—a small amount compared to Europe's colonies.

France and England are the two greatest colonizers with vast tracts of the earth's surface still available for development, and this political advantage will afford them a handy weapon in pushing their commerce—by trade barriers as well as by investments—against hostile competing nations.

When the present crisis in Europe's commercial, as well as political, history has passed, there will be opportunity for a realignment of trade forces. While the war continues, the United States is to some extent relieved of the competition that she felt up to 1914. She alone of the great leaders in world trade has not been drawn into the world conflict—and now is her opportunity to establish her place in the commercial world in anticipation of an after-the-war struggle.

SUGGESTIONS AS TO FURTHER READING

In the text the subject matter has been selected, so far as possible, with a view to keeping the reader's attention focussed upon concrete examples rather than upon theories. In suggesting further reading also the many volumes on the theory of economics will be omitted. Specific treatment of world trade forces will be found in such books as J. Russell Smith's *Industrial and Commercial Geography,* W. C. Webster's *General History of Commerce,* E. R. Robinson's *Commercial Geography,* Clive Day's *History of Commerce* and J. D. Whelpley's *The Trade of the World*—all of which should be helpful. In many of these books, commercial geography and economics have been jointly considered, and in all of them the broader principles of world trade have been emphasized.

There are many other volumes dealing with more specific phases of world trade—such as transportation, finance, etc.—which will be included more appropriately in the suggested reading of subsequent Units.

The exporter who wishes to study for himself the records of the United States as an international trader—especially in particular lines—will find official figures in the *Statistical Abstract of the United States, Commerce* *and Navigation,* the daily *Commerce Reports* and other publications of the Bureau of Foreign and Domestic Commerce. A catalogue of these publications should be obtained from the Superintendent of Documents, Government Printing Office, Washington, D. C., by every student interested in further study. The records of other nations can be found in the countries' annual statistical reports. General totals are reprinted in such publications as the *Statesman's Year Book,* the *International Year Book,* and the various almanacs such as the *World Almanac* and *Whitaker's Almanac.*

QUIZ QUESTIONS

INTRODUCTION

I

1. What are the four major divisions of the Course in Foreign Trade? What are the subjects of the three units in each division?

2. Why should we study import trade?

3. What are the component parts of a study unit? What is the best system for studying a unit?

4. Mention five qualities sought for in a man in export trade.

II

5. What three distinct eras are there in the commercial development of the United States?

6. What new world position has the war forced upon us as regards exports and industries?

7. What evidences are there in shipping and financial circles of a new interest in foreign trade?

8. What is the size of our export trade? What percentage does our foreign trade form of our total commerce?

9. What has been the rate of growth of our export trade during the last 15 years?

III

10. What are the four important items of "cost"? How will each be affected by the war?

11. What conditions followed the close of the Crimean War as regards money rate; of the Civil War and the Russo-Japanese War as regards wages?

12. What is the weakness of our present prosperity?

13. What developments in Europe forecast a commercial war after peace is concluded in the present armed conflict?

14. Will nations seek the cheapest markets irrespective of nationality after the war?

IV

15. What two causes have in the past limited the demand for men trained in foreign trade?

16. Where is that demand most insistent today?

17. Name three essentials in the educational training of a man for foreign service.

18. What is the difference between training a man *for a job* and *in a job*? Why is a reading-course of especial value in this connection?

19. Why is it "good business" for an employer to train his men?

ECONOMICS OF WORLD TRADE

I

1. Define "foreign trade" and "domestic commerce."

2. What are the three basic factors in world trade?

3. In what way does an empty kerosene can, bought by a Chinaman in the Federal Malay States, exemplify the basic principles of world trade?

4. How many fold has the foreign commerce of South America, India and Japan increased since the development of railways?

5. How does the world's stock of gold today compare with that of 1850 and 1890? What bearing does this have on world commerce?

II

6. Enumerate eight minor factors in world commerce.

7. In what three ways does export trade benefit a nation's home industries?

8. What is "dumping" and why is it injurious to trade?

9. In what two ways does the export of capital affect world commerce?

10. How does Alaska prove the value of colonization to a nation's trade?

11. Name three requisites of a trade center in international commerce.

12. How may the seasonal movements of wheat affect a shipper of coal?

13. Is a "protective" tariff repressive in its effect on world trade?

III

14. Name three new railroads now under construction that will assist in the development of non-manufacturing nations?

15. Name three uses to which electricity is being put in developing world trade? How?

16. What is meant by the "fluidity" of commerce? Give three examples of it.

17. How near is our coal supply to exhaustion? What does this mean to foreign trade?

18. How does the inventor contribute to trade expansion?

IV

19. How has the growth of our railroads affected freight rates?

20. What is the position of our total merchant tonnage among the commercial fleets of the world? Why is our foreign tonnage small?

21. How has immigration affected our foreign trade?

22. Give eight reasons why we are the greatest producing nation of the world.

23. In what two ways was our wealth increased by the European War?

V

24. What are the five classes of exports recognized by the Government?

25. Why did the growth of manufacturing industries cause a decrease in our exports of foodstuffs?